

LECTURE NOTES

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ON

ACC 101: INTROODUCTION TO FINANCIAL ACCOUNTING I

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## INTRODUCTION AND DEVELOPMENT OF ACCOUNTING

### The Nature, Scope and Purpose of Accounting

Accounting is as old as business exchange itself. Accounting is generally regarded as language of business. Accounting is regarded as the process of producing needed information periodically on the financial activities of economic activities so that the user can make decision about entities. Accounting transcends bookkeeping which include the analysis and periodical interpretation of the recorded financial data of an organization. It is regarded as the science of designing and maintaining accounting systems, directing and coordinating the activities of book-keeping information in a manner as to assist management in making informed decisions.

### Evolution of Accounting

The origin of accounting can be traced to Europe in the middle age when a great-land owners appointed a person called stewards to manage the land. Stewardship is the name given to the practice by which productive resources belonging to one person or group of persons are managed by other person or group of persons. Today a lot of business is operated as limited liability companies which are owned by the shareholders and managed by the directors appointed by them. Stewardship accounting is the process whereby manager of business accounts or reports the activities of business to the owner of business. The history of accounting as a separate discipline is fairly recent, dating back to the end of the World War II. Until then, accounting was not a discipline on its own but was rather treated as an integral part of economics, under its previous status as a branch of economics, accounting was taught in a very narrative and descriptive form and the accountants of the time were trained to handle only basic clerical jobs. After the world war, both the status of the subject and the approach to its teaching underwent a dramatic change.

It is generally believed that Luca Pacioli, an Italian Clergyman and Mathematician, is the father of modern day accounting. In 1494, he introduced the double entry system. The double entry principle which is otherwise called 'Golden Rule of Accounting' states that "for any debit entry there must be a corresponding credit entry that is, for every receiver of value there must be a corresponding giver of the value.

The fundamental objective of corporate reporting is to communicate economic measures and information about the resources and performance of reporting entity useful to those having reasonable rights to those pieces of information.

### Development of Accounting in Nigeria

In the earliest times, the individual trader owned all the resources used and was completely involved in all transactions. He therefore, knew all that seemed important about the business venture. The emergence of employer and employee relations brought about the need for a steward

to account for his/her stewardship to higher authority. Records at this stage were merely rudimentary because there was no recognized monetary system.

The first early work to be documented was done by Luca Pacioli, a mathematician in his book "Treatise of Book Keeping" published in 1494. During the industrial revolution in Great Britain, professional accounting bodies, such as the Institute of Chartered Accountants of England and Wales (ICAEW) improved the development of counting theories, methods and practice. However, the basic rules of double entry remain unchanged. The spillover of the activities of ICAEW and other recognized foreign professional accounting bodies necessitated the establishment of the Institute of Chartered Accountants of Nigeria (CAN) by the Act of Parliament No 15 of 1965. The Institute set professional codes of ethics and practice for its members. Another accounting body known as the Association of National Accountants of Nigeria (ANAN) was established in Nigeria. The two bodies now regulate the accounting profession in Nigeria. The ICAN observes the need to standardize accounting practice in Nigeria to comply with the global practices. This gave rise to the establishment of the Nigerian Accounting Standards Board (NASB) in 1982. The body is now referred to as Financial Reporting Council of Nigeria (FRCN) establishment vide FRCN Act 2011.

### **Definition of Accounting**

Accounting, as a result of its wide coverage which rose from its continued development, has many definitions. The one that is most useful for our purpose in this lecture was the one given by late Professor C.S. Ola: "Accounting can be defined as the art of recording, classifying and summarizing in a significant manner, or way, and in monetary terms, any business transactions of events and interpreting the results thereof. The operating words such as recording, classifying, summarizing, monetary terms, transactions and interpreting the results thereof go a long way to explain the mission of Accounting.

Accounting can also be defined as the collection and recording of financial data about an organization whether in the private or in the public sector and analysing the data so collected to suit the decision that needs to be taken and reporting the relevant information in a summary form to the user in a form that is meaningful to him or her (Omolehinwa, 2000).

The American Institute of Certified of Public Accountants defined accounting as "The art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part or at least, of a financial character, and interpreting the result thereof" (AICPA, 1961).

The American Accounting Association defined Accounting as "The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information (AAA, 1966).

Accounting may be regarded as a science if science is viewed as any branch of knowledge that applies the scientific method of observation, experiment and measurement. Hence, science may be defined as any body of knowledge organised in a systematic manner.

Accounting as an art, employs a great deal of human skill and judgment in the creation of aesthetic subjects, in dealing with practical reality of human endeavours.

The history of accounting cannot be complete without the mention of Franciscan Monk, Luca Paciolo who published his work in 1491 entitled "Summa de Arithmetica, Geometrica, Proportioni, Proportionalita". This book expounded the principles of the double entry system of Accounting.

### **Distinction Between Book-Keeping and Accounting**

Book-keeping is just an aspect of Accounting just as Optamology is part of Medicine. This is because book-keeping is concerned with the collection and accurate recording of the financial data, while accounting goes beyond this to classify and summarize the accounting data so collected into financial statements that are useful to the relevant decision maker. Thus, while a book-keeper is not expected to have a thorough knowledge of accounting, an accountant must always have a thorough knowledge of book- keeping.

### **Book-Keeping**

This is the act of keeping records of business transactions which enables the owner to monitor expense and income on business transactions. The person that keeps these books of account is the book-keeper. Book-keeping is an art of applying the principles of the science of accountancy in the keeping of books of account. From a record of books that is properly kept, the following salient events can be observed at a glance:-

- i. The property of the business
- ii. Debtors' and creditors' balances
- iii. Profit made or loss sustained within the period
- iv. The capital and liability of the business
- v. Above all, the Net-worth of the business.

The book-keeper has the responsibilities of keeping the accurate records of every item purchased, taking into consideration the data of purchases, quantity and their prices. In the same vein, he has to keep accurate records of items sold or owed, including data, quantity and prices. He also has to keep accounts of debtors and creditors of the company.

Essentially, a book-keeper has to possess some sterling attributes which include:-

- a. Honesty
- b. Skillfulness and carefulness
- c. Possess good communication skills
- c. Has to be numerate and arithmetically inclined.
- d. Has to be always decent, neat and attractive

### **Classification of Accounts**

Account is divided into two, namely-

(i) Personal accounts and (ii) Impersonal accounts

#### **(i) Personal Accounts**

Personal accounts are the accounts in the name of a persons, or corporate bodies that have business transactions with the business. Examples of personal accounts are debtor's accounts, creditor's accounts, Aade's accounts and Lola's accounts.

#### **(ii) Impersonal Accounts**

This accounts sub-divided into (a) Real accounts; and (b) Nominal accounts. Real accounts relate to tangible assets such as buildings, motor vehicles, furniture and inventory (stock). Nominal accounts are accounts that deal with items like revenue or income, expenses, intangible assets e.t.c.

### **Attributes of a good Accounting Information**

In order to be able to make an informed decision by the users of accounting information, the financial statement must be outstandingly prepared and has some of the framework qualities enumerated below and they are:

**Timeliness:** Accounting information meant to be useful must be prepared and made available to the users on time

**Accuracy:** The information prepared and presented must be exact and devoid of any errors and misstatement.

**Relevance:** The accounting information that is to be used for useful purpose must be relevant for intended purpose.

**Completion:** Any good accounting information must be adequate and comprehensive enough so that the user can make decision about it.

**Comparability:** Any useful accounting information must be capable of being compared from time to time and the information must be so adequate to be compared with other entity within the same industry.

**Clarity:** Any good accounting information must be free from all ambiguity and obscurity of whatsoever. It must be so clear to every level of information users.

**Objectivity:** Any good financial information must not be basely prepared. It must be free from every material misstatement of the person that has prepared it.

**Flexibility:** The financial information must be adaptable to every need of every user.

**Reliability:** financial statement information is reliable if it is not misleading as it is free from all material misstatement so that user can depend on it absolutely in making decisions.

**Understandability:** financial statement is understandable if simply prepared in such a way that users with reasonable knowledge of business can have its good understanding to be able to make judicious decisions about the entity.

## **Financial Statements**

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. In British English - including United Kingdom

Company Law - A financial statement is often referred to as accounts, although the term financial statement is also used, particularly by accountants. The relevance of stewardship accounting provides a basis for every corporate bodies or entities including private limited and public limited liability companies to prepare financial statement that is suitable for various users to make informed decisions about the business enterprise concerned.

## **The Major Objective of Financial Statements**

The major objective of financial statement is to provide information about the financial position, performance and changes in financial position of an entity useful for diverse users and their needs. For a business enterprise, all the relevant financial information presented in a structured manner and in a form easy to understand, are called the financial statements. IFRS typically financial statement includes four basic financial statements.

**Statement of Financial Reporting:** also referred to as "Statement of Financial Position" reports on a company assets, liabilities and ownership equity" at a given point in time.

**Income statement:** also referred to as profit or loss statement (or a P/L) reports on a company's income, expenses and profits over a period of time. Profit and loss account provides information on the operation of the enterprise. These include sale and the various expenses incurred during the processing state.

**Comprehensive income statement:** all items of income and expense recognized in a period must be included in profit or loss unless a standard or an interpretation requires otherwise. IFRS requires or permits that some items to be excluded from profit or loss account be included in Other Comprehensive Income.

**Items of Other Comprehensive Income are:**

1. Revaluation surplus (IAS 16 and IAS 38)
2. Actuarial gains and losses on defined benefit plans recognized (IAS 19)
3. Gains and losses arising from translating the financial statements of a foreign operation (IAS 21)
4. Gains or losses on re-measuring available for sale financial assets (IAS 39)
5. The effective portion of gains and losses on hedging instruments in a cash flow hedge (IAS 38)
  - i. Gain loss arising from disposal of non-current assets
  - ii. An entity has a choice of presenting an income statement in-
    - iii. Single statement of comprehensive income or
    - iv. Two statements which are-
      - i. Income statement showing items of profits and losses
      - ii. Statement of comprehensive income that begins with profit or loss and displays components of other comprehensive income (IAS 1.81)

**Statement of Retained Earnings:** This explains the changes in a company's retained earnings over the reporting period.

**Statement of Cash Flows:** this report on a company's cash flow activities, particularly the operating, investing and financing activities.

For large corporation, these statements are often complex and may include an extensive set of notes to the financial statement and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered as an integral part of the financial statement.

## Purpose of Financial Statements

The intent of financial statements is to provide information useful for economic decision making. In particular, the data should be useful in making investment and credit decisions. Financial statements should provide a reliable indication of a company's financial position, operating results, and changes in financial position.

Also financial statement components and categories should aid in decisions. Financial statements may provide information in addition to that specified by authoritative requirements and regulatory groups. In as much as management knows more about the business, it is encouraged to identify certain circumstances and explain their financial effects on the enterprise.

The specific objectives of financial statement analysis include the following: -

- i. To provide reliable financial information
- ii. To provide other needed information about changes in economic resources and obligations.
- iii. To provide reliable information about changes in the net profit and loss.

## Users and Uses of Accounting Information

The people who might be interested in the financial information coupled with their informational needs are classified as follows:

- i. **Shareholders of the company:** These are owners of the company; they will want to know how profitable the management runs the affairs of the company and their share of profit or dividends.
- ii. **Management of the company:** - These are the stewards appointed by the owners to supervise the day-to-day activities of the business.
- iii. **Employees:** - Employees would have a basis to negotiate for higher wage and better condition of services.
- iv. **Provider of funds/finance to the company:** - These include bank, financial houses which permit the company to operate on overdrafts or the debenture holders.
- v. **Creditors:** - These groups normally supply the resources required by the company in form of raw materials and goods and collect their money in the future. The financial information will give the creditors the financial position of the business and the ability of the business to pay for the goods collected on credits.
- vi. **Government:** - The Federal Board of Inland Revenue (FBIR) would want to know about the business profit in order to impose tax on the business taxable income.

**vii. Investors:** - Investors normally require adequate returns on their investment. Investors would want to see the financial statement of the company to be able to make investment decisions.

**viii. Business competitors:** - These are interested in knowing the performance of the company in the same industry to be able to appraise such company's performance.

**ix. The general public:** - This comprises, those interested in consumer protection, environmental protection, political and other pressure groups.

### **Major Branches of Accounting**

**i. Financial Accounting:** This is the process of recording, analyzing, classifying, summarizing and interpreting financial transaction to permit an informed judgment by the users of the information. Financial accounting reports are normally prepared annually but for quoted companies on the stock exchange market report may be prepared quarterly, half yearly and year.

**ii. Management Accounting:** This is the application of professional knowledge and skill of the accountant in the preparation and presentation of accounting information so as to assist the management in the formulation of policies and in planning and controlling the activities of an enterprise. Management is the sole user of the management accounting information.

**iii. Cost Accounting:** This is the process of measuring, analyzing and reporting to the management the cost and benefit of the actions of the management.

**iv. Taxation:** - This is science and concept of interpreting and application of the provisions of the tax law of the land in order to determine the tax payable by individual or company.

**v. Auditing:** - Auditing is defined as an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor in accordance with the auditor's terms of engagement in compliance with statutory provisions.

### **Basic Concepts and Conventions of Accounting**

Statement of Accounting Standard 1 (SAS 1) deals with the disclosure of accounting policies. The purpose of this statement is to assist any reader in the understanding and interpretation of financial statements and the information disclosed therein. The framework sets out the underlying assumptions of financial statements;

**Accrual Concept:** In determining the profit of a business for a particular period, information to be used should not be restricted to income and expenditure that have been paid for or received but should include those benefits received but have not been paid for. That is, the service has been enjoyed or rendered during the period. It means that revenue has to be recognized and recorded

immediately it is earned while expenses are recognized when they are incurred, but not when the money is received or paid.

**Going Concern Concept:** When recording the account of a business, it should be assumed that the business will be in existence for a very long period of time without any intention to close down the company or curtail the activities of the business later.

### Concepts of Financial Statement Preparation

**Accounting Method:** This is the medium through which accounting concepts are applied to financial transactions and to the preparation of financial statements.

**Accounting Basis:** This is the totality of method adopted by an enterprise for applying fundamental accounting concepts to financial transactions. There are two distinctive accounting bases (i) Accrual basis and (ii) cash basis.

**Accounting Policies:** These are bases, rules, principles, conventions and procedures adopted in the preparation and presentation of financial statements.

**Accounting Principles:** - These are employed in applying accounting concepts e.g substance over form, objectivity, fairness, materiality, prudence.

**Accounting Concepts:** These are principles upon which preparation of accounting records are based, which are universally acceptable. Accounting concepts can be seen as the rules that lay down the way for recording business activities. The preparation of accounting records for any organization must follow the principles set out in the accounting concepts. The common concepts are:-

**i. Entity Concept:** - The concept takes an organization as a legal being different and separate from the owner of the business. It goes further to say that, the business can sue and be sued in its own name and its records are distinct from that of the owner of the business. The only attempt to show any records about the owners is when there is a transaction between the company and the owner e.g. the owners increase the capital in the company and where the owner withdraws money from the business. In any of these cases, the records of the company will only show how the action of the owner i.e. capital or drawings affect the business but it will not extend to the personal resources of the owners.

**ii. Money Measurement Concept:** Many things do happen in an organization on a daily basis; however, for an event to be recorded in the accounting books of a business, they must be those events or transactions that can be measured in terms of money. For instance, the accounting records do not show if a company has a good or bad management team or if the owner is ill or healthy. However, anything that can be quantified in monetary terms like payment of salary of N500 will be recorded in the book of accounts.

**iii. Cost Concept:** - In recording the value of the company's assets, it should be stated or recorded at cost price or the original cost as this will ensure that all transactions are objectively recorded as against using their current values, which is different from the cost price.

**iv. Matching Concept:** - This states that revenues and expenses for any accounting period should be matched with each other so as to bring them into the accounting period to which they relate so that the profit for the period can be ascertained. The concept brought about adjustments in the final accounts at the year end.

**v. Dual Aspect Concept:** Normally, an organization has a transaction business with other parties and when a transaction occurs, it will give rise to having two records, one for the business, then the other for the other party. Dual concept ascertains the fact that for every transaction there is always a receiver of value and a giver of value.

**vi. Prudence Concept:** - This principle demands exercising great caution in the recognition of profits while all known losses are adequately provided for.

**vii. Materiality Concept:** The principle holds that only item that are of material value are accorded strict accounting treatment.

**viii. Substance Over Form:** - All business transactions are usually governed by legal principles. They are however accounted for and presented in accordance with their substance and financial reality and not merely on their legal form.

### **Concepts of Financial Reporting**

Accounting standards are set of rules that prescribe the methods by which financial statements are to be prepared and presented. Hence, standards are laid down rules and regulations guiding the preparation of financial statements. It is a pronouncement produced by recognized accounting bodies with the objective of ensuring a high degree of standardization in the presentation and presentation of published financial statements.

It is important to note that accounting standards normally originate from International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS).

### **International Financial Reporting Standard**

International Financial Reporting Standards (IFRS) are promulgations by the International Accounting Standard Board (IASB) which is an international standard setting board situated in London. The IASB is keen about developing standards based on sound, clearly stated principles to which interpretations are needed. International Financial Reporting Standard is principles based standards unlike United State Generally Accepted Accounting Principles (GAAP) that are rule-based standards.

## **International Accounting Standards Board**

In order to strengthen the quality, independence and legitimize accounting standards, the International Accounting Standard Committee (IASC) was replaced by the International Accounting Standard Board (IASB) in 2001. This was also done to enhance the quality of financial reporting standards. The interpretative body of the international accounting standard committees was also replaced by International Reporting Interpretations Committee (IRIC) in 2002. The recent name of this interpretative arm of the IASB is IFRS interpretations committee which was named International Financial Reporting Interpretations Committee (IFRIC) in 2010.

### **Benefits of Accounting Standards**

- i. It promotes uniformity of accounting principles.
- ii. It improves the standard financial reporting
- iii. It reveals the concepts that are generally acceptable
- iv. It gives room to disclosure of departure or deviation from normal accounting practices
- v. It improves reporting quality of financial statement
- vi. It reduces accounting complexity
- vii. It enhances technology and process of accounting

### **Adoption of Accounting Standards in Nigeria**

Before the emergence of IFRS in Nigeria, there was the application of SAS provisions to the preparation of financial statement of both sole traders, partnership, companies both published and unpublished, incorporated and non-incorporated companies. It is important to remember that SAS provisions were not applicable to accounts meant for internal consumption by the management. In addition, where the SAS conflicts with the IAS provisions, the SAS prevails simply because of local peculiarities and local environmental factors. With the introduction of IFRS the consideration for peculiarities of the environment is removed and now specifically from January, 2012 all registered companies in Nigeria have to prepare accounts in accordance with IFRS provisions and Financial Reporting Council of Nigeria (FRCN) has the responsibility to ensure compliance with IFRS among the companies.

### **Aims of International Financial Reporting Standards (IFRS)**

1. To provide a platform for uniformity of accounting standards world-wide
2. To improve the quality of preparation of financial statement for easy comparison among companies all over the world

3. To enhance fair presentation of financial statement
4. To ensure transparency of accounting information
5. To enhance investors confidence in financial report

### **Disadvantages of International Financial Reporting Standards (IFRS)**

1. It ignores local peculiarities
2. It does not give room for initiatives
3. Inadequate financial reporting templates to incorporate IFRS into Nigerian financial reporting system

### **Standard-Setting Procedures**

In setting the accounting standards, there is a need to plan for the project either to conduct the project alone or jointly with another standard setting body. The IASB may at this point consider the establishment of working group at this stage.

Another stage is at which to develop and publish the discussion paper which is not compulsory once the IASB often publishes it as its first publication on any major new topic to explain the issue and solicit early comments from constituents.

At this juncture, the board publishes and exposure draft of the proposed standards for public comments and consultations. The exposure draft sets out a specific proposal in the form of a proposed standard or (an amendment to existing standards).

Furthermore, the next stage is the development and publication of IFRS which is done during the IASB meeting after it might have considered the comments received on the exposure draft. After all the necessary consideration the board may publish the revised proposals for public comments by publishing a second exposure draft.

Finally after an IFRS issued, the staff and the IASB members hold regular meetings with interested parties, including other standards setting bodies to consider oversight issues related to the practical implementation and potential impact of the proposal.

### **International Financial Reporting Standards (IFRS)**

The following standards and interpretations were adopted by the International Accounting Standards Boards (IASB) as at 2013:

**IFRS 1: first time adoption of IFRS**

IFRS 2: Share based payment

IFRS 3: (Revised) Business combinations

IFRS 4: Insurance contract

IFRS 5: Non-current assets held for sale and discontinued operations

IFRS 6: Explorations for and evaluation of mineral resources

IFRS 7: Financial instruments; Disclosures

IFRS 8: Operating segments

IFRS 9: Financial Instruments

IFRS 10: Consolidated financial statements

IFRS 11: Joint arrangements

IFRS 12: Disclosure of interest in other entities

IFRS 13: Fair value Measurement

### **International Accounting Standards (IAS)**

IAS 1: presentation of financial statements

IAS 2: Inventory valuation

IAS 3: Consolidated financial statements (superseded by IAS 27 and 28 issued in 1989)

IAS 4: Depreciation (replaced by IAS 16)

IAS 5: Information to be disclosed on the financial statements (superseded by IAS 1)

IAS 6: Accounting responses to change in prices (withdrawn in Dec, 2003)

IAS 7: Statement of cash flows

IAS 8: Accounting policies, changes in accounting estimates and errors

IAS 9: Accounting for research and development activities (superseded by IAS 38)

IAS 10: Events after the reporting period

IAS 11: Construction contract

IAS 12: Income taxes

IAS 13: Presentation of current assets and current liabilities

IAS 14: Segment reporting

IAS 15: Information reflecting effects of changing prices (withdrawn in Dec. 2003)

IAS 16: Property, plant and equipment

IAS 17: Leases

IAS 18: revenues

IAS 19: Employees benefits

IAS 20: accounting for government grants and disclosure of government assistance

IAS 21: The effects of changes in foreign exchange rates

IAS 22: Business combinations (superseded by IFRS 3)

IAS 23: Borrowing costs

IAS 24: Related party disclosures

IAS 25: Accounting for investments (superseded by IAS 39 and IAS 40)

IAS 26: Accounting and reporting by retirement benefit plans

IAS 27: Consolidated and separate financial statements

IAS 28: Investment in associates

IAS 29: Financial reporting of hyper inflationary economies and similar financial institutions (superseded by IFRS 7)

IAS 30: Disclosures in the financial statements of banks and similar financial institutions (Superseded by IFRS 7)

IAS 31: Interest in Joint Ventures

IAS 32: Financial instruments presentation (superseded by IFRS 7)

IAS 33: Earning per share

IAS 34: Interim financial reporting

IAS 35: Discontinued operations (superseded by IFRS 5)

IAS 36: Impairment of assets

IAS 37: Provisions, contingent liabilities and assets

IAS 38: Intangible assets

IAS39: Financial instruments; recognition and measurements

IAS 40: Investment property

IAS 41: Agriculture

### **International Financial Reporting Standards Compliance**

Fair presentation is one of the fundamental attributes of financial statements. Statement of financial position, financial performance and cash flow of an entity must be presented fairly. Fair presentation requires a faithful representation of the effects of transactions, other events, and conditions in line with the definitions and recognitions criteria for assets, liabilities, income, and expenses set out in the framework. The adoption of IFRS coupled with disclosure when necessary is presumed to result in financial statements that depict fair presentation. It is essentially important to note that financial statement will not be regarded as complying with IFRS until it complies with all the requirements of International Financial Reporting Standards (IFRS) including interpretations

However, in an extreme circumstance where the management feels that complying with IFRS will be misleading and possibly conflict with the objective of financial statement, it is permitted for such management to depart from the adoption of such standard but with detailed disclosure of the nature, reasons and impact of the departure on the reporting system.

### **Items on Financial Statement Based on IFRS and IAS**

1. Statement of financial position formally called balance sheet
2. Non-current assets formerly called fixed assets
3. Equity and liabilities classified together formerly called as financed by: capital employed; ordinary share and reserves
4. Income statement and statement of comprehensive income classified by nature and function as against Profit and Loss Account which included two format, that is, Trading and Manufacturing
5. Receivables formerly called debtors

6. Payables **formerly called** creditors
7. Opening inventory **formerly called** opening stock
8. Closing inventory **formerly called** closing stock
9. Statement of changes in equity **formerly called** statement of cash flows
10. Statement of cash flow **formerly called** accounting policies 4
11. Accounting policies **formerly called** explanatory notes
12. Explanatory notes **formerly called** value added statement
13. Statement of value added (not compulsory) but can be shown under financial review **formerly called** five-year financial summary

**The Following Points Must be Noted about IFRS when Preparing Financial Statements**

1. Assets and liabilities are measured using fair value as against historical cost concepts in valuing fixed assets with regards to depreciation.
2. IFRS prohibits extraordinary items
3. Exceptional items not defined but separate disclosure may be made to some items
4. There are recognition standards for sales of goods, rendering of services and other assets revenues transactions
5. Completed contract method is not allowed; rather long term contract should be accounted for using percentage of completion method.
6. The use of FIFO and Weighted average method to determine cost is allowed while the use of LIFO is disallowed.

**The Main Roles of the International Accounting Standards Board (IASB) include:**

- (i) To develop, in the public interest a single high quality, understandable and enforceable set of global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting.
- (ii) To help participants in the worlds capital market and other users to make economic decision.
- (iii) Promote the use and rigorous application of the standards
- (iv) Bring about convergence of the National accounting standards and International accounting standards to high quality solutions

(v) To take account of the financial reporting needs of emerging economies and small and medium-sized entities (SME).

### **The Standard Setting Process**

Standards are set by a process of consultation thus:

- i. Identifying an appropriate subject.
- ii. Setting the agenda.
- iii. Establishing an Advisory Committee to recommend an appropriate treatment.
- iv. Developing and publishing the exposure draft for the public to make comments.
- v. Developing and publishing the Standard, provided 8 of 14 members of the IASB agree to do so.