

# Financial accounting assignment

Business



Individuals in society coexist by establishing relationships with each other. Another way of viewing society is by segmenting it into different groups or arenas, for example the social, economic, organizational and political arenas. In order to function effectively, these different arenas need to communicate and it is accounting information that facilitates this communication.

Accounting information serves many important purposes, for example assisting users in making informed decisions, in relation to the effective allocation of scarce resources.

Therefore accounting information can be seen to be a potent influence in society, which affects everybody. Accounting has a long history it is seen as being socially constructed I. E. It is practiced by people for people and therefore it is more of an art rather than a science. Unlike other professions, which have a body of theoretical knowledge to depend on to make decisions, accounting has evolved as a craft with few rules and little to no theoretical knowledge underpinning its practice and function.

Accounting traditionally has played a stewardship role and it has historical records to demonstrate it as an extension of the owners personal memory. However society and business practices have changed. The growth of global business and the emergence of new sectors such as commerce have lead to complex transactions being undertaken. This in turn has unearthed problems of subjectivity and inconsistency in the application of traditional accounting techniques. For example, changes in the nature of business assets to include intellectual property or the use of leasing have lead to the question of how to account for these types of transactions?

However, not many of us are aware of its unity-gritty and the part that it plays in determining the profits of a company. Infant many of us completely Moore analyzing this important parameter. However, with considerably flexibility over how depreciation is calculated, it is one of the easiest figures to manipulate for the companies. But before we start with all the techniques used to manipulate depreciation let's understand what it actually means. To start with, have a look at the table that gives you an idea about where depreciation actually features in the Profit & Loss statement.

What is depreciation? Mr... A. Has a small bakery which produces the finest bread in town. Recently, he purchased a new oven for baking his delicious bread. The machine costs RSI. 10, 000, which is an expense. However, the oven that Mr... A has purchased will be used not only in this year but also in the years to come. Let's assume that it can be used for a period of 5 years. So, the cost or expense incurred by Mr... A in purchasing the machine should be distributed over a period of 5 years and then subsequently deducted from the respective sales figures for these 5 years.