

Report on convection of consistency

Business, Company



Abstract

Several accounting principle have been put in place to ensure that the financial statement presented to users are free and fair. The principle of consistency ensures financial statements are prepared using the same principle year after year. Materiality concept ensures that only valuable information is included in financial statement. Principle of disclosure ensures that all valuable information is included in preparation of financial statement. Then the principle of conservatism makes sure that losses are recorded when foreseen while profits must be earned before recording.

The fixed asset register keeps eye on all fixed assets of a firm. The assets are depreciated using specified method either straight line or diminishing depreciation. The register is computerizes to enhance efficiency and minimize paper work as well.

Introduction

Accounting concepts are used to ensure financial statements are free and fair to users. The financial statement should provide relevant information to enable users make informed decision. These concepts include materiality, conservatism, consistency and disclosure among others.

The fixed asset register is a mean of internal control regarding fixed asset. The asset has an entry to enable the option of depreciation.

This convection proposes that financial statements should be prepared using same accounting principles. This enables users of financial statements to easily compare and contrast them from time to time. This can only be

realized when procedures and practices applied in preparing the financial statements are identical. A firm should adopt one policy of charging depreciation of all fixed assets from year to year. (Belverd etal, 2007)

There are three types of consistency; vertical, horizontal and dimensional consistency. Firstly, Vertical consistency this is consistency used in preparing interrelated financial statements of a firm on the same specific date. In this case, it is inconsistent to prepare profit and loss account using one method and then, using another method for preparing balance sheet of the same firm. Similar method should be used in preparing all financial statements of the same organization.

Secondly, Horizontal consistency is the consistency which advocates for a firm to use same accounting principles a year after year. This will enable users to compare performance of the company year after year with ease. Lastly, dimensional consistency advocates that different organization in the same industry should use same principles in preparing financial statements. This allows users to compare two or more firms operating in the same industry.(Belverd etal, 2007).

Consistency does not imply the use of only one principle without considering changes in time. Therefore, a change in method should always be indicated when adopted.

Materiality convention

This convention states that it is only important and relevant financial information that should be disclosed in a financial statement of a company.

Therefore if exclusion of certain item from financial statement cannot influence the decision made by users of financial statement then it should not be included. The material fact of an item depends on its nature, size of the company and cost of item in question. It is against this convention to include an item such as a broom then go forward and depreciate the broom. The nature of the business carried out will also influence what can be referred as material. For example a company which trades in stationary will have to disclose the purchase of pens as stock because the company uses sizeable money to purchase the pens this is unlike a company office expenditure of stationary. The company size also determines what material for example, a small company must disclose an item like wheelbarrow because this represents a considerable item for the company but a large company may consider this as immaterial. (Chowdhury, n. d).

Failure to consider this convection may lead to inclusions of useless information in the financial statements.

Convention of Disclosure

This convection proposes that all relevant and material fact of a company must be disclosed in financial statement. This ensures that there is totally full, fair and adequate disclosure of the entire financial information.

Adequate implies that sufficient information which can influence users of financial statement is disclosed. Fair implies that the information should be equitable to all users. Then full disclosure implies that the information should be complete and detailed.

Therefore the company should fully disclose all relevant financial information. Therefore any information which may influence investors, lenders, creditors and shareholders should be disclosed. The shareholders would like to know the any loss or profit made therefore all information about sales as well as expenses should be disclosed. Failure to disclosure this information the firm the firm will have hidden relevant information to shareholder.

The convention of disclosure enables users of financial statement to be able to make relevant and valid comparison of financial statement. (Chowdhury, n. d).

Convention of conservatism

This convection provides that a company should record all foreseen losses immediately but anticipated profits should never be recorded unless when earned. This prevents companies from recording any profit yet it may not even be realized. This avoids overstating profits, which may lead to distributing dividends out of company's capital. On the other hand any foreseen loss should be recorded immediately so that the profit to be distributed to shareholders takes care of any losses. This allows for a company to make provision for doubtful debts, writing off intangible assets such as patents. This is convection which allows a company to make adequate provisions in periods of doubts and uncertainty.

The significance of this convention is to help in; maintaining firms capital, ascertaining profit situations of doubts and uncertainty.(Chowdhury, n. d).

Procedure for authorizing purchase of fixed assets

Fixed assets cost substantial amount of money therefore the acquisition procedure should be as per the rules of the firm. Relevant department should be the one to initiate the process of acquiring the asset. The department should fill requisition form and the head of the department should sign it. The budget authorities should then factor the acquisition cost in the budget of the company. During the time of purchase the company asset authority should approve the purchase and fill the asset acquisition form. Then all the officers should sign the form. (www. admin. cam. ac. uk).

A procedure for raising order

The relevant department should raise purchase requisition form which should then be approved by the authorizing department. Then, the purchase department requests for price quotations from different companies. Then the prices will be compared as well as quality of the asset. the purchase department will settle on one company then purchase order is raised. The purchase order should include all details pertaining quality and any special features of the asset.

Procedure for receipt of invoice and payment

The correct and accurate value should be the amount indicated in the invoice. This amount should rhyme with the price indicated in the catalogue received before raising an order as well as the delivery note which accompanied the asset. This amount should be approved by the relevant officer before the invoice is forwarded to the relevant paying department. The paying department should raise a check of the correct amount specified

by the invoice. The relevant authority should then sign the check and issue it to the seller. (Belverd et al, 2007)

Fixed asset register

Fixed assets register enables the company to record all details of the company's assets. This ensures that the firm keeps track of details of the fixed assets to avoid misuse of company's assets and any instance of fraud through the assets. This register will allow for depreciation and any tax computations concerning the asset. The register is structured such that it generates complete, accurate and customized report to suit needs of management. The assets included are leased, under construction as well as owned. (Loren et al, 2007).

The moveable assets will include details such as the condition when was asset moved from one location to another as well as who authorized and condition of the asset during the time it was moved. Generally details included depends on: whether the asset is purchased on cash or on higher purchase, insurance requirements of the asset, location of the fixed asset, maintenance of the fixed assets, and requirements by the law. (Iain and struart, 2007).

The register ensures that the assets are correctly numbered i. e. systematically and up-to-date. Unless fixed asset register is correctly maintained then physical identification of asset becomes totally impossible. Therefore the assets should be correctly tagged. Heavy plants and machinery should be engraved because they suffer from heavy wear and tears.

The assets are tagged to: verify the existence as well as location, maintenance and provides a common communication ground of communication among users, accounts department and those who record the assets and control the movement of the assets. Some fixed assets like vehicles land and buildings may not need tagging given that they have registration numbers or independent systems tracking system

A company adopts one mode of depreciation and sticks on it before choosing the company considers value of the asset when new, salvage value as well as the expected life span of the fixed asset.

Straight line method

The company takes the cost value of the asset less the salvage value then divides the answer with the number of years the asset is expected to take. This method allocates same value of depreciation to all the years. (Loren etal, 2007)

Units of production method

The use of fixed asset varies over years. Therefore the company calculates the depreciable cost of the asset by subtracting the salvage value from acquisition cost of the asset. The answer obtained is divided by number of hours to obtain the cost incurred when the asset is used in one hour. The amount per hour is then multiplied by the number of hours the machine is used per year to obtain the amount of depreciation each year. This method ensures that the amount of depreciation charged depends on the usage of the asset. (Loren etal, 2007)

Double declining method

In this method the straight line cost calculation is made then the rate is doubled. Therefore the amount of depreciation is charged more in the first few years of use. It is important to note that the salvage value is not considered. The amount of depreciating should never fall below the salvage value of the asset. (Lain and struart, 2007).

Procedure for disposal of the asset

The asset should be disposed only after approval by the management. The disposal value should be realistic and should not fall below the amount recorded in the asset register. When the asset is depreciated for a les value than the amount stated then the reason for this should be stated. The money received should be banked immediately or according to the regulations pertaining handling of money in the firm. (Lain and Stuart, 2007).

Relevant international accounting standards /international financial reporting standards

IAS 40 a company is allowed to value investment property at historical value or fair value

IAS 16 paragraph 43 and 44: if property of item has an item which is significant in relation to the cost of the entire item can be differentiated separately

IAS 16 paragraph 16 requires a company to explicitly estimate residue value of an asset and that it should be reviewed annually

IAS 16 paragraph 6 requires that a company to estimate useful life of an asset. Under this the company should state the years as well as number of production units.

IAS 38 intangible assets form part of non current assets

IAS 36 about impairment of assets.

Use of spread sheet registers

In the spread sheet every asset is identified by unique tag number which when entered in the search option the all details regarding the asset are displayed. The officer in charge can therefore add more information of the asset e. g. can record movement or even disposal. The system is automated such that amount of depreciation charged directly registers it self as expense in the profit and loss account of the company. (Www. admin. ca. ac. uk).

Business assets get used with time. Business se depreciation expenses to track the use of their assets. Depreciation is used to adjust the present value of an asset as it grows old. Assets useful life decreases with time of use, for example the value of a lorry would decrease with time of use. This is so for many other business assets used for a year and above. A firm needs to track to estimate value of its assets, cost of repair and cost of replacement with respect to age. Assets that are used and written off annually cannot be said to depreciate, also land cannot depreciate, since it's not used up. (www. Admin. Cam. Ac. uk).

In accounting for fixed assets, one must calculate the depreciation rates using a method of convenience. There are four method of calculating depreciation namely; double declining balance, straight line, units of production and sum of year's digits. In the spread sheet model register in this report would be recommended. To be bale to calculate the depreciation rate, it is essential to determine the useful time of the asset which should be in accordance with the IRS. (www. Admin. Cam. Ac. uk) . The asset register enables the firm to keep track of the assets with ease.

Conclusion

Several concepts of accounting applied in preparation of financial statement. They include materiality, conservatism, consistency and disclosure among others. These concepts ensure that the financial statements are free and fair. They ensure that users are able to make informed decision.

The fixed asset register enables a firm to keep track of all the non assets regardless of whether the assets are movable or not. The register is computerized to minimized errors and paper work.

References

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