

Ethical issue - property plant and equipment

[Finance](#)



Task It is unethical for the Asian Food to treat a purchase of a fixed account as a business account. In this case, the management of the business fails to make full disclosure of accounting information to the accountant with intentions of paying less tax.

The following ethical principles are contravened by the inactions of the management:

1. Full Disclosure principle since they failed to disclose the necessary information
2. Materiality principle that requires the management to disclose any information with huge financial implications should it be omitted.
3. The cost principle that requires that all costs should be recognized according to the guidelines issued by the International Financial Reporting Standards, Gupta (2009).

Task 2

When financial statements such as balance sheet and profit and loss account with some fixed assets being recognized as operations expenses, the profit for that particular year reduces. This is because the profit is realized by subtracting total expenses from the trading profit. That is:

Net profit = trading profit (+ income) - total expenses. Shareholders are the main victim of this unethical practice since their dividends depend on the amount of profit that the company makes. In addition, tax payable to the government decreases since the tax is charged on the net profit, Gupta (2009).

Task 3

As stated above, the purchase of a ventilation machine is treated as the purchase of a fixed asset. In this case, the accounting entries should be <https://assignbuster.com/ethical-issue-property-plant-equipment/>

similar to those of any other machinery and equipments. In this case, the following entries should be made:

Account

Debit

Credit

Fixed asset account/ventilation machine account

Xxxxxx

Cash

Account

xxxxxx

In this case, the machine should only appear in the balance sheet but not in the trading, profit and loss account, Peterson (2002). The balance sheet should appear as follow:

Asian Foods

Balance sheet

As at march 5, 2015

Fixed assets \$

Ventilation machine xxxx

References

Gupta, A. (2009). Financial accounting for management: An analytical perspective (3rd ed.). Delhi, India: Dorling Kindersley (India) Pvt.

Peterson, R. (2002). Accounting for fixed assets (2nd ed.). New York: J. Wiley.