Discussion topic replies

Finance

Discussion Topic/ Replies

Reply: I know some companies or individuals have large incomes or expenses at certain times of the year, and like to close their books after these large events. This gives the accountants enough time to collect all funds, reconcile whatever they have to, pay off whatever they have to and get working on a budget for the next year sooner than a calendar year would. So that being said, A fiscal year proves to be more financially accurate than a calendar year.

Response

It is correct to have a financial cycle ending at a strategic period where the company feels that more incomes and expenses are concentrated around a particular period. It makes little sense to report massive profit on a given month where as the month that follows will need the company to pay expenses amounting to half the profit. This will make investors and other users to make uninformed decision. Ethically, accountants must demonstrate objectivity at all time, Adèr (2008). As such they should stay true to the users-to give them nothing but the correct net value of a business and subsequent profitability. In this case, it is proper to have fiscal year that does not correspond to the calendar.

Student 2 Reply:

A retailer picks a different fiscal year because they have their biggest profits during change of seasons and also during the sales of a season ending. Since a typical fiscal year ends in December this month is looked at from retailers as " mid winter" season where their purchases in retail will be low. I know from experience in shopping that I tend to purchase seasonal clothes a few weeks before the weather changes and newer clothes are in.

Response

Reporting on financial accounting takes into consideration the “ going concern” principle of accounting. This basically tells a user of accounting that the company will exist indefinitely. As such, taking financial transactions from January to December of a particular makes users oblivious of how transitions take place from year to year. As such, it is correct to have fiscal year where one half is in the previous and the other half in the current year. Furthermore, if there is a month where voluminous transactions are done, it should be complemented with another period where transactions are fewer, May (2003). This will increase the credibility of financial statements and hence it is wiser to have a fiscal year that is not corresponding with the calendar year.

Reference

Adèr, H. J (2008). A Consultants Companion in finance. 2nd ed. Rosmalen: Johannes van Kessel Publishing

May, C., (2003). Introduction to financial reporting. 2 ed. Pittsburgh: Carnegie Mellon University.