FIN ROOT

Accounting and Finance club.

Volume - i

Message from the Head

It is a pleasure writing this message for the first issue of "Finroot" magazine released by the Accounting Club of the Department of Finance and Accountancy, the Faculty of Business Studies.

After forming the Accounting Club, the students taken the effort to release this first magazine. The name of the magazine denotes several meanings to the society, i.e, find your root for the survival. Without having strong root in the world survival is impossible. Therefore, the magazine tries to find out the correct root for the development.

The "Finroot" provides a platform for the students to organize their thoughts and bring it in writing. It gives them an opportunity to find new thoughts and fine tune it into an article. On the whole releasing magazine by students provides them number of benefits and wealth of experiences.

I hope this first issue will carry useful many articles and enhance knowledge of our Accounting and finance specialization students in our university and in the country. The accounting clubs continue this tradition in the future as well. I congratulate the students and senior treasure once again in bringing out this magazine.
Wish you all the best.

Dr. (Mrs.) K. Kalainathan
Head
Dept. of Finance and Accountancy
University of Vavuniya

Message for the Senior Treasurer

I wish to welcome all the readers to the very first volume of the 'Finroot' magazine which is released by the Accounting and Finance Students Club of the Faculty of Business Studies. The magazine includes articles from the disciplines of accounting and finance. The magazine gives a platform for the students to express their hidden talents. I appreciate the efforts of all the club members who have written the article, and the entire team of the editorial committee who contributed their best.

I wish the club to release more editions in the future.

Mr. C. Larojan
Senior Treasurer
Accounting and Finance
Students Club

Message for the Editor

Congratulations on the newest publication of fin-root route volume 1 magazine. Club members did excellent job of creating articles. I appreciated your kind participation on particular tasks. I have always admired works that done by club members and I am very happy that we were able to complete our task in spite of the all other demands on our time.
Best wishes to future endeavors.

Thank you,

Yours faithfully,
P.A.D.A.Sewwandi
Vice president,
Accounting and finance club

AUDITING

Audit is the examination or inspection of various books of accounts by an auditor followed by

physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organisation.

What is auditing?

- The term audit usually refers to a financialstatement audit. A financial audit is an objective examination and evaluation of the financial statements of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent.

- **An example of an audit is a dean analyzing your credits determine your eligibility for graduation.**

- The purpose of an audit is to form a view on whether the information presented in the financial report, taken as a whole, reflects the financial position of the organisation at a given date.

Methods of auditing

1. Inquiry

Inquiry is a fairly straightforward testing method, using interview-style questioning with the point of contact for certain controls. Because the quality of the information gained from inquiry depends on the accuracy and truthfulness of the interviewee, it is considered a weaker form of evidence.

2. Observation

Another simple, basic and effective testing method involves an auditor's observation of tasks, procedures and conditions. This testing method is most often used when there is no documentation of the operation of a control.

3. Examination or Inspection of Evidence

This testing method helps auditors determine whether manual controls are being consistently performed and properly documented. Inspection can be used to verify the implementation of control measures, and to test certain attributes of policies and procedures.

4. Re-performance

Re-performance is used when inquiry, observation, and physical examination and inspection have failed to provide the requisite assurance that a control is operating effectively.

It's also the method that is used least frequently in the field.

5. Computer-Assisted Audit Technique (CAAT)

1. The CAAT method of testing is often used to analyze large volumes of data or a sample of compiled data. Using special software, CAAT testing runs a script over a ledger, spreadsheet, or an entire database, to spot trends, irregularities, and potentially fraudulent entries.

The benefits to a country of conducting an audit.

1. Compliance

Obviously this is one of the main reasons to conduct an audit: to meet the statutory requirements and regulations in your industry. An audit provides complete peace of mind for business owners and shareholders that the organisation is 100% compliant with all of its current statutory obligations.

2. Business Improvements / System Improvements

A thorough, in-depth audit takes an impartial look at your organisation's internal systems and controls. This means it's an ideal opportunity for the auditing experts to suggest improvements that can make your business more efficient.

3. Credibility

An audit provides independent verification that the financial statements are a true and fair representation of the entity's current situation. This provides invaluable credibility and confidence to your organisation's customers/clients, stakeholders, investors or lenders *and even potential buyers. It is confirmation that financially everything is as it appears to be.*

4.Detect and Preven Fraud *It's estimated that up to 30% of New Zealand businesses are subject to fraud, error and corruption. Workplace fraud can occur for years without being detected and can be so substantial that some businesses never recover financially or repair their reputations.*

5. Better Planning and Budgeting *An audit confirms the accuracy of an organisation's financial statements by analysing its financial transactions. It's a detailed process and can result in certain types of income, expenditure, assets and liabilities being scrutinise*

R.M.N.Madhushani
2019/BS/10

Best accounting practices for online businesses in pandemic.

When I struggling with finding the right topic for my article for "FinRoot" magazine, I have choose one topic as "Best accounting practices for online business in pandemic".

In present we all have been affected by the current Covid19 pandemic. However the impact of the pandemic and its consequences are felt differently depending on our world as individuals and as members of society. The Coronavirus crisis and its economic effects coincides with business world. In this pandemic, accountants help to companies set strategy to deal with Coronavirus.

Covid19 is the worst global crisis in our lifetime, but if we adopt new ways of working and new way of thinking about work we can all get through this with the least disruption possible. The current pandemic has opened up the door for new and expanded business opportunities as consumers adapt to post - Covid life.

Online business have achieved a best level of success. Without online business and E-Commerce consumers can't get their wants or needs in this pandemic. When it come to the accounting practices of online business, there's a lot to consider. Following key things that will help to us stay on the right track.

- ✞ Have a cloud accounting software
- ✞ Manage returns and charge backs
- ✞ Integrate accounting software with online store
- ✞ Reconcile account regularly
- ✞ Manage inventory
- ✞ Manage cost of goods sold
- ✞ Keep track of all other expenses
- ✞ Track sales and profits before tax
- ✞ Calculate all other expenses
- ✞ Get own accounting software
- ✞ Understand cost of goods sold
- ✞ Figure out break – even sales requirement
- ✞ Combined with consumer by using social media as Facebook, Insta , Tiktok etc.
- ✞ Get consumer attraction for the business

We need that best accounting practices for online business in this pandemic because of growth like this , that E – Commerce is how many people envision their own business. But there's one area of E – Commerce trading that needs professional input.

"Only accountant can save the world through peace , Goodwill and reconcilations''

R. Naduni Kaveesha Rathnapala, 2019/BS/207

First year 2019/2020 Batch

Faculty of Business Studies University Of Vavuniya

Limitations of Accounting

Although accounting can be declared the language of business, it is certainly not without its flaws. This has been highlighted by the fact that accounting fraud has been happening one after another for many years. In fact, even with stricter regulations and strict accounting rules, accounting fraud does not stop.

As an accounting student and practitioner, it is therefore imperative that you be aware of the limitations of accounting. Knowing the limitations helps us to take them into account and work with them. Here are the main limitations of accounting.

Subjective Measurement

Accountants must attribute a monetary value to each event or transaction that takes place within the organization. Sometimes the monetary value of the transaction is impossible to determine. Consider the case of depreciation. Accountants can at best provide estimates of depreciation that should have been incurred given the scale of the work. However, these estimates are usually far from the milestone. This makes accounting policies open to debate as well as to manipulation.

Qualitative Factors

Accountants try to attribute a monetary value to everything. Things that can not be monetized do not count! Consider the case of goodwill. Until the organization explicitly pays for the goodwill purchased from another company, it cannot account for the goodwill. According to the accountants, the goodwill created by the company internally is useless. We all know that this is not the case and therefore the accounting is wrong in terms of goodwill.

Unstable Unit of Account

Accountants must measure all transactions in a single unit of account. This unit of account is usually the currency used in a particular country. However, it is known that the value of coins is not stable. Inflation, deflation and other such forces make currency values dynamic. When accountants express assets purchased in last year's rupees with the same unit purchased in this year's rupees, it presents a distorted picture. Many companies have low book values because their assets have been bought for a long time in periods without inflation.

No Information about Opportunity Cost

Accountants provide information about what happened. However, management would be better off if it had information about what could have happened if it had used its resources optimally. This feature is also lacking in accounting, which makes it administratively limited.

Despite its limitations, the importance of accounting is unquestionable. It is difficult to imagine running a firm without accounting.

Financial literacy for empowerment

The Central Bank this week sought to reassure the public of the stability of the financial system after the cancellation of The Finance Company resulted in many people becoming perturbed over the safety of their savings in non-bank financial institutions. Given the spate of troubled finance companies in recent times, this is an understandable reaction, but the public also has a part to play in ensuring they do due diligence on where their money is parked.

As per Standard & Poor's 2014 global financial literacy survey, Sri Lanka has a higher financial literacy rate than its South Asian peers. This is not a surprising factor since Sri Lanka has one of the highest adult print literacy rates in the region, and as a country with an ageing population there is greater need for competent use of the financial system to find solutions to social needs.

However, what it is noteworthy is the gap between print literacy and financial literacy. Sri Lanka has the highest gap between print literacy and financial literacy in the region. As per the survey, on average 65% of adults in the major advanced economies are financially literate. South Asia records the lowest percentage of financial literacy, with Sri Lanka coming in at about 35%. Bhutan has the highest parity between its print literacy and financial literacy, recording 65% and 55% respectively.

This indicates that there is more scope to promote financial literacy among Sri Lankans, and this may well be one of the main reasons behind the relatively high level of indebtedness, where despite the country's well-developed financial system, many pockets still struggle to use it effectively.

Financial literacy is massively important because even though about 83% of Sri Lankan adults have bank accounts, their usage of banking services is severely limited. The number of individuals who reported no deposit and no withdrawal in the past year was 31%, and only 17% of women have been successful in borrowing from the formal sector, whereas over 80% of borrowers in the informal microfinance sector are women. This shows that there is a strong gender bias towards financial inclusion and literacy as well.

Every few years Sri Lankans read about or hear of pyramid scams or informal lending schemes that provide loans at high interest rates and have landed their clients in trouble. Most of these operate outside legal purview because governments cannot police lending organisations that do not take deposits. Deposit-taking entities are generally licensed and have to perform according to regulations, but lending-only businesses, especially those that proliferate online, are very hard to control.

These organisations generally thrive on the financially illiterate, who, because of their lack of knowledge, only focus on short-term gain and have limited understanding of the long-term impact of their decisions. Perhaps the best example of this was the post-war influx of hire-purchase schemes that flooded into the north, and have now come to be synonymous with errant microfinance companies. When lenders do not understand the concept of compound interest, the results can be dangerous.

Beyond wide ranging awareness programs, financial literacy needs to be built into Sri Lanka's education system, with personal finance management a mandatory part of the school syllabus. Short modules can be built into vocational training, local language media and all entrepreneurship efforts. Without financial inclusion and financial literacy, everyone cannot be truly empowered.

Source: Daily FT Sri Lanka

M.N.F Nazma
2017/BS/39

Department of Accounting and Finance

Faculty of Business Studies

ROLE OF COLOMBO STOCK EXCHANGE MARKET IN DEVELOPMENT OF SRI LANKAN ECONOMY.

INTRODUCTION

The Colombo Stock Exchange (CSE) is the main stock exchange in Sri Lanka that utilizes an electronic trading platform. The CSE headquarters have been located at the World Trade Center (Colombo) Towers in Colombo since 1995, and it has regional branches in Kandy, Jaffna, Negombo, Matara, Kurunegala, Anuradhapura and Ratnapura. The CSE trades 296 companies representing 20 business sectors, as of 25 January 2021, with a combined market capitalization of 3,699 billion Sri Lankan rupees.

On 1 September 2021, turnover surpassed 14 billion and the All Share Price Index (ASPI) surpassed 9000 points for the first time when it closed at a record high of 9,163.13 points.

Share trading in Sri Lanka was initiated in 1896 under the Share Brokers Association (SBA). The Colombo Brokers' Association began auctioning land shares in 1904 and gradually became the SBA's competitor. The two organizations combined to form the Colombo Securities Exchange in 1985.

The establishment of a formal stock exchange took place in 1985 with the incorporation of the Colombo Stock Exchange (CSE), which took over the Stock Market from the Colombo Share Brokers Association. It currently has a membership of 15 institutions, all of which are licensed to operate as stockbrokers.

The company was renamed the Colombo Stock Exchange in 1990. The CSE introduced the Central Depository System, which automated clearing. The CSE headquarters opened in World Trade Center Colombo in 1995. The Milanka Price Index (MPI) of the CSE's 25 best-performing stocks was introduced in 1999. Several regional CSE branches were opened within the country, at Kandy, Jaffna, ambalantota, Matara, kurunegala, Anuradhapura and ratnapura.

The National Stock Exchange (NSE) and the CSE signed an agreement to explore opportunities to work together and foster a strategic relationship. The agreement is intended for cooperation on the exchange of information and expertise and also paves the way for the NSE to play a consultative role in a number of strategic initiatives implemented by the CSE, including new product development and exchange operations.

The CSE launched a guide to help listed Sri Lankan companies address environmental, social and corporate governance (ESG) factors in their capital market communications.

DIFFERENT INVESTMENT AVENUES IN CSE

The CSE provides the platform for trading of a range of securities for investors to choose from, diversifying their investment as well as mitigating risk.

- Ordinary Voting Shares (Normal Shares)
- Ordinary Non-Voting Shares
- Preference Shares
- Rights
- Warrants
- Corporate Debentures
- Units of Closed- End Funds

ROLE OF CSE IN ECONOMIC DEVELOPMENT OF SRI LANKA

Stock exchanges protect buyers. Stock exchanges play a vital role in the functioning of the economy by providing the backbone to a modern nation's economic infrastructure. Stock exchanges help companies raise money to expand, hire more qualified staff and repair or replace equipment.

Its primary objectives are to encourage cooperation among its members to promote the development of their individual securities markets, to develop an integrated regional stock trading system, and to offer to list and trade securities issued in the region.

A stock exchange brings companies and investors together. A stock exchange helps companies raise capital or money by issuing equity shares to be sold to investors. The companies invest those funds back into their business, and investors, ideally, earn a profit from their investment in those companies.

Stock exchanges enable individuals to invest their own money for private gain. Stock exchanges also enable businesses to raise money to buy capital equipment. This is important for many developing countries that lack advanced capital equipment.

Stock exchanges play a vital role in the functioning of the economy by providing the backbone to a modern nation's economic infrastructure.

Stock exchanges help companies raise money to expand, hire more qualified staff and repair or replace equipment. They also provide individuals the ability to invest in companies. Stock exchanges provide order and impose regulations for the trading of stocks, helping decrease fraud, according to the Corporate Finance Institute. Finally, stock exchanges and all of the companies that are associated with the stock exchanges provide hundreds of thousands of jobs.

Benefits for company and its management.

Stock exchange's easy marketability and liquidity ensure a quick and steady supply of capital to the business through provisioning the buying and selling of stocks and securities. This forum also helps the companies to generate additional capital funds without any collateral.

Stock market/Exchange is an important part of any economy. It plays a pivotal role in the economic growth and development of an economy which would benefit Industries, Trade and commerce as a whole. This is their primary role; the secondary function of the stock market is that the market plays the role of a common platform for the buyers and sellers of stocks which are listed on the stock market. It is the secondary market of the stock exchange which facilitates Domestic, Foreign investors and institutional investors.

FINANCIAL AWARENESS DAY – AUGUST 14

Financial independence is something we all like the sound of, but not many of us know much about how to truly attain it. That’s why International National Financial Awareness Day has come along to change all that. It’s about sharing the simple rules that can lead to greater financial independence and maybe change your life for the better.

2019 is the first year of National Financial Awareness Day, so the history of this day is relatively short. It was set up by people who know the power of financial independence and how it can change lives. They have a desire to share those secrets and make financial independence a realistic goal for more people.

National Financial Awareness Day is about finding ways to achieve financial independence and sharing information relating to that goal. But what is financial independence in simple terms? In short, it's

about reaching a point where you're generating enough income from assets to cover all your living expenses.

day. Therefore, you'll have attained financial independence. Once you're financially independent, all kinds of new opportunities open up and this day is about celebrating that

When you reach that point, you will no longer be reliant on earning a paycheck by going to the office and working for someone else each

and helping people reach that point in their lives.

There are 2 rules associated with National Financial Awareness Day: the Rule of 25 and the 4% Rule. The Rule of 25 helps you to plan for the future by helping you to define how much money you'll need to have saved

for retirement, which is 25 times your annual expenses. The 4% Rule is about determining how much of a stock portfolio you can spend in a year and not run out of money.

WHY NATIONAL FINANCIAL AWARENESS DAY IS IMPORTANT

1. It celebrates Easy Street

As the saying goes, why work for your money when you can make it work for you? Sometimes in the seemingly endless race to chase that paper, we forget that we don't always need to take the uphill course. With the right knowledge, you can make the road to riches far less bumpy and a lot more scenic. Sound investment practices can help you spend less time working and more time enjoying your life.

2. It teaches us that finances don't have to be confusing

In the land of the blind, the one-eyed man is king and if there's one thing most people are clueless about, it's finance. There's no downside to having a bit of financial literacy in life. It's a subject many people find daunting, but taking the initiative to learn how money works will make all your peers green with envy. Just like everyone flocks to that one mechanically-inclined friend when their car breaks down, you'll be that guy — but for money. Plus, when your car breaks down you can just buy a better one!

3. It reminds us to prepare for the unforeseeable future

They say money can't buy you happiness. Perhaps — but not having money can sure bring you a lot of sadness. That's why it's so important to make sound investment decisions now so you're not suffering later. You never know what kind of pitfalls life may throw your way but there's no better safety net than having a nice contingency fund in your pocket.

M.N.F Nazma

2017/BS/39

Department of Accounting and Finance

THE PRAISE OF AN UNSEEN ACCOUNTANT

In my diary,,,
There was a nice note about an accountant,
“you look like a cute star shining behind the scenes.
You can think of money as numbers…
But, never following assumptions,
Balance, add, subtract, divide, write, audit,
And balance unbalanced accounts
You're right…
Good control, good system,
Try to maintain,
Reach your goals,
One ndless commitments and responsibilities
Sometimes it makes you tired
But you,,,
Likes honest sweat and fatigue
Why,…
You are a genius who learns from
Your past and plans for success….
Loyal, kind, shy.,
Real accountants have to be really blind,
It will surely lead you to,
The right path of good conditions…….



Financial focus

WHAT IS THE ROLE OF AN ACCOUNTANT?

The responsibilities of an accountant have grown with the use of technology; their advisory roles will become more strategic in the future. Accountants will be more proactive in the future of the firm if they have a better understanding of the corporate plan. More involvement from accountants will be sought by company executives, who will help shape the firm's direction and provide real-time insight on strategic decisions.

A Degree To Improve Your Career..

A Specialized Degree in an innate understanding of the Accounting prepares you for intricacies of contemporary staying well-informed of the business to help them advise latest trends in the executives in making strategic accounting field with a financial decisions for their focus on developing companiegraduates who are skilled financial practitioners with

New Trends for Accounting...

With the advanced technology accounting field has made big difference from past...

Data Analytics **Blockchain Technology**

The focus on data analysis of Blockchain is a major accounting trend underlying accounting and that has grown in popularity over the last financial information is one of few years. The use of a network of the most important accounting independent computers to record, share, developments. Advancements and synchronize transactions into an in data centers, database immutable ledger of accurate financial technology, and software have information is referred to as emerging ushered in the age of big data technology. Continued investment in

and data mining to improve management decisions, because knowledge is critical to making prudent financial decisions. Accounting information has long been an important component of company decision-making.

blockchain technology in 2022 is expected to yield real-world results beyond the big players as it becomes more practical, scalable, and integrated into the operational structures of both small businesses and traditional global corporations. Blockchain can be viewed as an accounting-based technology. It tracks and stores assets, liabilities, and transactions, as well as methods for recording cash flow and reconciling accounts.

-R.A.H.C.Rajapaksha

ACCOUNTING

What is the accounting? What are the concepts in accounting? Why people use accounting for their company? Can’t people continue their company without accounting? What is the important thing about accounting? There are so many problems in here. Anyone can think this kind of problems. But the person who follow the accounting they know answers for this all quotations.

“Accounting is the process of identifying measuring and communication economic information to permit informed judgment and decisions by users of the information “.

(American Accounting Association)

This is American accounting association’s definition. Everyone can give every kind of definitions for accountings but according to my mind accounting is a language in the business. Why am I saying like this? Yes. It is language. It is very simple language. We all know language is the one of communication method. So accounting also like that. If we look financial reports, we can get ideas about that organizations. Everyone can understand what is in financial reports if they follow accounting or not.

But there are some problems. We know there are different kind of educated peoples refer the organization’s financial reports. But all the peoples are not follow the accounting as a subject and we know there are so many different type of organizations in the world. So different kind of educated peoples in each that company. Top level organizations have charted accountant and some middle level organizations have normal educated accountant. do u think top level organizations have one type of reporting methods and others use another type of reporting methods? No. That’s wrong. Because all in the world organizations use same concepts and methods for proper the financial statements. So no worry about their native language and their educated level.

So what is this world wide concept? Is there a concept? Yes. It is Conceptual Framework. Conceptual Frameworks based on IAS and IFRS. It determines how financial statements are prepared. In Sri Lanka use the Sri Lankan accounting standards (LKAS/SLFRS). It based on IFRS.

H.D.P. ISHARA
2019/BS/69
FACULTY OF BUSINESS STUDIES
BUSINESS MANAGEMENT
1ST YEAR

Accounting Policies

Accounting Policies are rules and guidelines that are selected by a company for use in preparing and presenting its financial statements. Accounting policies are important, as they set a framework, which all companies follow and provide comparable and consistent standard financial statements across years and relative to other companies.

Importance Of Accounting Policies

There are extremely important to a company preparing the financial statement

- **Proper Framework:** Accounting policies essentially provide companies with a framework to report their financial statements, follow a standard format.
- **Providing advantage to investors:** The investors will gain added confidence in the company and the numbers and statement can easily be compared to other company's financial statements.
- **Government retaining a hold on financial statements:** The Government can keep a check on financial statements and protect the interests of investors.
- **Disclosure:** There are separate rules for how reports are submitted. Finance statements should be reported accordingly.

Examples of different areas for which Accounting Policies are applied companies.

1) **Valuation of Inventory**
   The companies use accounting policy for the method of valuation of Inventory. FIFO method or WAC.

2) **Depreciation**
   Companies choose different methods of calculating depreciation, like straight line method, Reducing balance method. Depreciation would include expenses that can be capitalized.

3) **Revenue and expenses**
   Revenue recognition and measurement could include revenue can only be recognized once goods or services are received by the customer.

Below are some more examples of the accounting policies.

4) **Treatment of goodwill.**
5) **Treatment of fixed assets.**
6) **Valuation of fixed assets.**
7) **Valuation of investment.**

- ✓ Company's management can be explained as framework in which the company is expected to record its day to day transaction. The company can follow their own set of specific policies. But they shoul d be in compliance with the IFRS depending upon the country of operation.
- ✓ The Financial Statements are very helpful for company interested parties. The investors are reviewing the company's financial position. Therefore company should be consists in its accounting policies and should not change the policies. If the company c hanges its accounting policies, such changes hall be properly disclosed in the financial statements.

It can change only following reasons,

- ➢ Required by statues/ Law.
- ➢ Compliance with accounting standards.
- ➢ More appropriate presentation of financial statements.

<u>Summery</u>

Accounting policies provide a framework for the business in which it is expected to operate, record its day to day transaction, measure its assets and liabilities, and prepare its financial statement. They are an integral part or basis on which financial statements are prepared across the world. This should be followed religiously as it helps in maintaining consistency and also increase investors and shareholders trust in the business.

By: R.V.W.Sapumohotti

2019/BS/62

First year students

Faculty of business studies

HISTORICAL DEVELOPMENT OF ACCOUNTING SYSTEM

Accounting System

Accounting is the process of recording, classifying, analyzing and interpreting the business transactions which can be measured in terms of money.

Accounting is one of the most important areas of economy, which has become so widespread in our live today that it is impossible to imagine modern business and economy without this component and accounting is a well thought out system that reflects the movement of various facts of economic life.

Father of accounting is **Luca Pacioli,(Italian)** who in 1494 first described the system of double-entry bookkeeping, which is included debits and credits in journals and ledgers that is still the basis of today's accounting system.

History of Accounting System

The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations. The early development of accounting dates back to ancient Mesopotamia.

The history of accounting is as old as civilization. The seeds of accounting were most likely first sown in Babylonia and Egypt around **4000 B.C.** who recorded transaction of payment of wages and taxes on clay tablets. Historical evidence revved that Egyptians used some form of accounting for their treasuries. Where gold and other valuables were kept.

System of accounting was like the incharge of treasuries had to send Day wise reports to their superiors. Who were know as Wazirs (the prime minister) and from there they used to prepare month wise reports and they sent to king.

Babylonia known as the city of the commerce it used accounting for business to uncover losses which was taken place due to the frauds an lack of efficiency.

In Greece accounting was used for apportioning the revenues received among treasures, maintain details of the total receipt, total payments and balance of government financial transactions.

Roman used memorandum on day book where in receipts and payments were recorded And where from they were posted to ledgers on monthly basis. **(700 B.C to 400 A.D)**

China used sophisticated form of government accounting as early as **2000 B.C.**

In India Accounting practices could be traced back to period when **twenty three centuries** ago Chanakyar wrote the first book named **" Arthashasthra"** which also described how accounting records had to be maintain.

Accounting Process in early time

Record the transactions regarding goods or services (in Barter system time)

Completed the leger accounts by hand use single or double-entry system

→ Provided a clear picture of an entity's financial activities by Luca Picioli

Historical events related to Accounting (from accounting start to now)

Before 2000 BC - Barter system

8000 – 5000 BC - Earliest evidence of accounting language comes from Mesopotamian civilizations.

1400S - Single entry bookkeeping

1494 - Luca Pacioli publishes the framework for modern.

1887 - The American Association of public accountants was established.

1896 - The accounting profession is formally recognized.

1903 - 1^{st} audited statements are issued.

1905 - Journal of accountancy is published.

1909 - Accounting machine created for national cash register company.

1913 - The U.S begins charging income tax to fund the upcoming world.

1952 - IBM released its first large computer and accounts are among the first to use them.

Present day - Quick book is amongst the most popular accounting software.

Enrollment Number : 2018/BS/142

Name : J.Abirami (3^{rd} year)
Specialization : Accounting and finance

The Importance of Accounting Software in Today's Business World

Technology is having a rapid change in the world. Most of the multinational companies are engaging their systems with the sufficient experience and consulting in their business. But Small and Medium Enterprises are not sufficiently in condition to have the consulting facilities in their business. While considering on the accounting information system there are number of selection of many software packages in the world. As an Entrepreneur they have to select the correct and efficient Accounting Software package which is more suitable for their business

Accounting software is an automated system that helps bookkeepers, accounting professionals, and business owners to process accounting transactions and manage accounts. Different kinds of accounting software do different things. Most of them automatically enter, store and analyse data for us. This is especially useful for saving time on tasks like bank reconciliation.

Accounting software is a must in Today's business world because almost every company uses them and makes it easier for business owners to manage financial procedures, performing financial tasks correctly and quickly. Without the help of accounting software, business owners or accounting managers will have to spend too much time creating financial reports and other documents or reconciling bank accounts and statements. So this software greatly helps them gain complete visibility into their company's financial health to make wiser decisions

Most Common Accounting Software

- QuickBooks
- Fresh Books
- Xero
- Wave
- Sage 50
- Zoho

Key Features of Accounting Software

- **Invoicing and billing:** Handles production of invoices and sending reminders to customers on payments.
- **Payroll:** Handles all the company's data that relates to payments made to employees. This includes incomes, deductions, income tax, overtime calculations, leave, and generating pay slips.
- **Reporting:** Reports generated like income statements, Cash flow, balance sheet, or trial balance help to show the financial position of a company.

Identify and prevent errors: Transparency and accuracy are the two factors ensured when we are using accounting software. A dependable solution is designed and coded to provide data on time, compute properly, and eliminate mistakes.

- **User – friendliness:** Accounting software, in general, caters to all types of users. There is no specific domain that accounting favours but the customers may vary from domain and verticals. However, when we build our own accounting system, we must ensure that the one we select is user friendly, intuitive, and anybody can utilize it from our staff, including those who aren't accounting or tech knowledgeable.

Benefits of implementing Accounting Software in our Business

- **Maintain control of our finances:** Managing our personal finances on the fly is one thing, but need something more formal when running a business. Accounting software organizes and stores our financial data in one location. It enables us to get a full view of our business's financial performance in real time.

- **Automate invoices:** To keep cash flowing and our business growing, must bill clients on time. Many of the best accounting software programs let us automate invoicing. We can create recurring invoices, send follow-up reminders, and accept digital payments directly from the invoices.

- **Track expenses:** A common accounting mistake is failing to track business costs accurately, and the last thing we want is to face a cash flow shortage because expenses are out of whack. Accounting software can help us prevent that scenario by automating expense tracking. With the software, we can scan and record receipts, as well as track mileage and expenses incurred on behalf of clients.

- **Reconcile bank statements:** A core feature of accounting software is the ability to connect with our bank accounts. With it, we can access our bank statements directly from our accounting software.

- **Manage inventory:** Whether we run a retail store or operate only online, we need to keep tabs on our inventory. We don't want to run out of a hot selling product or purchase one that's languished on the shelves. Accounting software can help with that, even automating the ordering process. With accounting software, we can track products sold, set reordering thresholds, and run reports on which items are doing well and which aren't.

- **Easy collaboration with our accountant:** When we use accounting software, our financials are organized in one central location. Receipts are scanned in, tax forms filed and inventory tracked. That makes it much easier for our accountant to do their job. Many accounting software programs will let our accountant have access to the program for free.

2018/BS/19
V.C.L.EMILRAJ

<u>Six Biggest Technology Trends in Accounting and Finance</u>

Technologies in accounting always played a part in making the accountant's job just a little easier. Technology advancements have enhanced the accountant's ability to interpret data efficiently and effectively. The most important impact of technology in accounting is the reduction of errors. Accountants easily rectify the mistakes and also provide companies with more useful financial information. Automation of the recording processes has reduced human errors to a huge level and also Access to faster software that can perform more complex functions, as well as interconnected technology has made accounting both easier and more efficient. Cloud computing, Blockchain technology, Automated accounting technology, Artificial intelligence in accounting, Machine learning in accounting are some accounting technologies.

Here I'm taking about the six biggest technology trends in accounting and finance.

Every business and accountants should really evaluate how these six technologies can be used strategically to achieve the company's business strategy.

1. Big Data

Big Data can be defined as enormous sets of unstructured data coming in various forms gathered from different sources at a rate so fast that it is way beyond the processing power of a traditional server. Big data enables accountants to identify issues with real-time access to the data proactively. Accounting businesses can base their decision-making more on hard evidence and facts rather than emphasizing guesswork and assumptions about customers, employees, and vendors.

Applying analytics to big data creates many opportunities for businesses to gain greater insight, predict future outcomes and automate non-routine tasks. It also provides opportunities for the accountancy profession to deliver greater value and to help businesses transform their decision-making in many different areas. In financial accounting, Big Data will improve the quality and relevance of accounting information, thereby enhancing transparency and stakeholder decision making.

The advantage of big data analytics in accounting is that it can help significantly improve risk management by analyzing customer behavior, predicting shifts in economic trends, and much more. Some of the examples of risk management include liquid risk management, credit risk management, card fraud detection, and more.

2. Increased Computing Power

All the data are created by the digitalized world would be useless or at least less powerful if it wasn't for the advances in computing power. These changes allow accounting and finance departments and firms to store and use the data effectively. First, there are the cloud services from providers such as Amazon, Google, and Microsoft that provide scalable systems and software to leverage that can be accessed wherever and whenever it's needed.

In simple terms, "the cloud" or "cloud computing" refers to the delivery of computing services via the internet. Cloud accounting software can revolutionize the efficiency of your bookkeeping, streamline your financial administration and provide a real-time view of your key numbers. While traditional IT frameworks can prevent an accounting firm's ability to work productively, a custom cloud arrangement can provide correct security privileges, data backup, and better control, helping accounting firms to diversify their business initiatives. Cloud accounting software is similar to traditional, on-premises, or self-install accounting software, only the accounting software is hosted on remote servers, similar to the SaaS (Software as a Service) business model. Data is sent into "the cloud," where it is processed and returned to the user.

After that Edge computing has also grown. Edge computing refers to the decentralization of computing that moves data processing from the core infrastructure, where computing processing traditionally occurs, closer to the person or item creating the data.

3. Artificial Intelligence (AI)

As artificial intelligence has done for every industry, it's making a significant impact in the world of accounting and finance. From time saving and money and providing insights, AIenabled systems for accounting and finance are the way finance professionals and their firms will stay competitive and attract the next generation as employees and customers. Today, AI is most commonly used Within the accounting world to complete repetitive tasks, such as recording data, sorting transactions, reconciling accounts, inputting and matching data from scanned receipts and invoices to transactions, comparing employee expense reports against company policy, and tracking price.

In the short to medium term, AI brings many opportunities for accountants to improve their efficiency, provide more insight and deliver more value to businesses. In the longer term, AI raises opportunities for much more radical change, as systems increasingly take over decision- making tasks currently done by humans. Combining AI with other technologies, such as robotic process automation, can allow accountants to redirect the time that they used to spend on mundane tasks toward performing high-value, high-impact tasks. Adding AI to accounting operations can also increase output quality by minimizing human errors.

Artificial intelligence can help accounting and finance professionals be more productive. Machines can help reduce costs and errors by streamlining operations. AI helps accountants be more efficient.

4. Intelligence of Things

The Internet of Things (IoT) has already taken the

world by storm. It can be found everywhere from smart devices to industrial machines and smart homes. As IoT typically is a system of interconnected devices, appliances, or machines that communicate with each other and exchange data, it is predicted that there will be 21.5 billion connected devices by 2025.

IoT will change the sources of transactional data that flow into various accounting systems. This means that there will be a larger influx of data that will need to be incorporated into reporting systems.

The majority of this data will also be supplied in real-time and will be displayed on dashboards that aid in decision making and planning. Intelligence of Things will put accountants in a stronger position to provide advice by making client financials and financial activity increasingly visible. The IoT will bring accounting closer to IT and that professionals

from both fields will need to work together to determine what kind of data to collect and how.

The intelligence of things helps finance professionals track ledgers, transactions, and other records in real-time. With the support of artificial intelligence, patterns can be identified, or issues can be resolved quickly. This continuous monitoring makes accounting activities such as audits much more streamlined and stress-free.

5. Autonomous Robots

Robotic accounting is a form of robotic process automation (RPA) in the accounting field. The emerging technology uses robotic submissions to reduce the need for human labor in manual accounting processes. Robotic accounting is often perceived as a human replacement, but it is far from it. Robotic process automation (RPA) is a general set of automation tools for replicating any manual, repetitive process at scale, often by automating manual processes performed on spreadsheets, homegrown, older applications, or other systems.

Today, Robotic process automation is one of the most exciting technologies in the business world. Robotic Process Automation (RPA) enables you to improve productivity, drive down costs and streamline compliance. It frees more time for you and your team to act proactively and focus on the strategic work that brings joy and adds value to your business. Robots don't have to be physical entities. In accounting and finance, robotic process automation (RPA) can handle repetitive and time-consuming tasks such as document analysis and processing.

6. Blockchain

The final tech trend that has significant implications for accounting and finance professionals that I wish to cover is blockchain. Blockchain is an accounting technology. It is concerned with the transfer of ownership of assets, and maintaining a ledger of accurate financial information. For accountants, using blockchain provides clarity over ownership of assets and existence of obligations, and could dramatically improve efficiency. Due to distributed ledger technology, blockchain technology eliminates the need for entering accounting information into multiple databases and potentially removes the need for auditors to reconcile disparate ledgers.

Furthermore, accountants with blockchain experience can serve as consultants by helping their clients navigate both implementation and regulatory issues related to blockchain technology. Blockchain can make the financial industry more transparent since users are performing activities on a public ledger. This transparency can expose inefficiencies like fraud, leading to problem-solving that could reduce risk for financial institutions. Once blockchain is widely adopted, and challenges around industry regulation are overcome, it will benefit businesses by reducing costs, increasing traceability, and enhancing security.

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What is Financial Accounting?

Financial Accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time. These transactions are summarized in the preparation of financial statements, including the balance sheet, income statement, cash flow statement, explanatory notes that record the company's operating performance over a specified period.

In the United States, Financial Accounting is done in accordance with: Generally Accepted Accounting Principles.

Internationally, Financial Accounting is performed in accordance with: International Financial Reporting Standards.

Financial Accounting follows the either the accrual basis or the cash basis of accounting.

What is Managerial Accounting?

Managerial Accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking. Thus, it relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purpose of policy formulation, planning, control and decision- making by the management.

Managerial Accounting provides methods and techniques for evaluating the performance of the management.

Managerial Accounting Techniques

- Product costing & valuation
- Cash Flow Analysis
- Inventory Turnover Analysis
- Financial Leverage Metrics
- Budgeting, Trend and Variance Analysis

Differences between Financial Accounting and Managerial Accounting

Financial accounting focuses on providing historical financial information to external users. External users are those outside the company, including owners and creditors. Financial accountants reporting to external users are required to follow U.S. Generally Accepted Accounting Principles (GAAP), a set of accounting rules that requires consistency in recording and reporting financial information. This information typically summarizes overall company results and does not provide detailed information.

Managerial accounting focuses on internal users- executives, product managers, sales managers and any other personnel within the organization who use accounting information to make important decisions. Managerial accounting information need not conform with U.S. GAAP. In fact, conformance with U.S. GAAP may be a deterrent to get useful information for internal decision- making purposes. For example, when establishing an inventory cost for one or more units of product (Sportswear Company), U.S. GAAP requires that production overhead costs, such as factory rent and factory utility costs, be included. However, for internal decision- making purposes, it might make more sense to include nonproduction costs that are directly linked to the product, such as sales commissions or administrative costs.

What are the Professional Qualifications which related to each accounting categories?

Financial Accounting:

AAT accounting courses (Association of Accounting Technicians)

ACCA qualifications (Association of Chartered Certified Accountants)

CIMA Business Finance Award (Chartered Institute of Management Accountancy)

Managerial Accounting:

- ACCA
- AAT
- CIMA

For example, to understand how the work each accounting categories in an organization.
Honda Motor Company Ltd. is a Japanese Public multinational conglomerate manufacturer of automobiles, motorcycles and power equipment. Managerial accouters of this company have more responsibilities and duties.They make reports typically include, the business's available cash, sales revenue and payable & receivable accounts using managerial accounting techniques.
These reports are typically formatted for informal, internal use of Honda Company. (i.e., not held to any strict accounting standards.)

Honda Motor Co. Ltd and its subsidiaries mainly develop, manufacture and distribute motorcycles, automobiles and also provide financing for the sale of those products. Principle manufacturing facilities are located in Japan, The United States, Canada, Mexico, The United Kingdom, Italy, China, India, Thailand, Vietnam, Argentina, Brazil and Turkey.

- Basis of Presenting Consolidated Financial Statements.

The company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries generally maintain their books of account in conformity with those of the countries of their domicile.

- Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in, first-out basis.

- Cash Equivalents

Honda considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents mainly consist of money market funds and certificates of deposit.

By: K.M.S.S. Fernando

2019/BS/23

First year student

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<u>Leading laws relating to Accounting</u>

The accounting law is the system used to record, summarize, analyze and categorize the financial transactions of individual or business. This is used in legal cases determine the amount of damages owed to a plaintiff. Four main accounting laws states as follows,

01.Methods of Accounting include,

Accrual- shows income earned and expenses incurred over a specific period regardless of what they were received or paid during that period.

Cash- records only income and expenses that have been paid or received during specific period.

Completed contracts- reports the income and expenses associated with specific long-term contracts. **Installments-** Calculates depreciation of regulated utilities for income tax.

Cost- Shows the value of assets at their actual cost.

Fair value method- Indicates the current market value of the assets.

Price level- Values the assets in a financial statement by comparing their current value to the gross national product.

02.Court-ordered accounting

If the court requires accounting in a lawsuit, the defendant must account for his or her admission of the affairs in question. This may include:- The management of an estate by an executor and The disclosure of the business action of a partner.

03. Failures of accounting

Major changes have been made to professional accounting standards owing to a series of industry mishaps beginning in the late 1990s. Since 1973, the Financial Accounting Standards Board (FASB) has served to establish these professional accounting and reporting standards. Although this is a private organization, the American Institute of Certified Public Accountants and the Securities and Exchange Commission (SEC) recognize its authority.

The most famous of these incidents was the collapse of the Enron Corporation in the third quarter of 2001, resulting in U.S. history's largest bankruptcy. Thousands of employees lost their retirement plans, and accounting firm Arthur Anderson was found guilty on federal charges of obstruction of justice. The courts found that Andersen:

-Did not follow generally accepted accounting principles (GAAP).

-Destroyed thousands of paper and digital documents.

-Improperly categorized hundreds of millions of dollars.

After the Enron case, the FASB took a central role in leading the industry's self-regulation. New accounting rules were announced in early 2003

04. Generally Accepted Accounting Principles (GAAP)

The existence of these rules, guidelines, and procedures creates public faith in the system by those who participate in the economic marketplace. The aftermath of the 1929's stock market crash showed the disastrous financial consequences of a lack of public faith.

Organizations including the SEC, the FASB, and the **American Institute of Certified Public Accountants**(AICPA) have developed modern accounting principles. The latter formed the Committee on Accounting Procedures in 1937 with the aim of standardizing industry practices. In 1959, the Accounting Principles Board replaced this committee, and it maintained responsibility until the 1973 formation of the FASB.

By: S.Ridurshan (2019/BS/21)

Accounting Software

(By: Rathnakumar Sampavi)

Accounting software is a computer program that assists book keepers and accountants in recording and reporting a firm's financial transactions. Accounting software is an invaluable resource for modern businesses. Different firms have different accounting software needs and the functionality of accounting software differs from product to product. Some organizations need generic, off the shelf accounting software, while others will need customized, complex accounting software. Accounting software makes it easier for business owners to manage financial procedures, performing financial tasks correctly and quickly.

There are many advantages and benefits that come with using accounting software. Computer accounting software help the user to access accounting data any time anywhere, multiple users can work on the same accounting data in real time without ever getting in each other's way, biggest advantages of accounting software is accounting data is safely secured on the cloud, accounting software will make sure that your accounting records are organized in a proper and accurate manner every single time, real time tracking and reporting is likely one of the top advantages of accounting software, it reduce the cost and save the business money, reducing the paperwork on printing and posting the invoice and improve sustainability, accounting software help to make a professional business invoice using one of the premade templates in a matter of seconds, main benefits of using accounting software is that it helps with tax compliance, accounting software makes retrieving old accounting data easier which is helpful for internal and external audits, most of the major software programs make using the program simple and the math is accurate and reliable and accounting software help to record and track your payables and receivables and it enables the business to know about the current as well as future cash flow status and accounting software includes simple and fast data entry capabilities.

There are some disadvantages also in using the accounting software. When a business is reliant on accounting software any loss of service due to a power or computer outage could cause a work disruption and if the information is not properly backed up a computer outage could result in lost financial data, the information in an accounting system is only as valid as the information put into the system, beyond the initial outlay to purchase the software there is the cost of maintenance, customization, training and computer hardware, financial data can be sensitive and confidential using accounting software creates the potential for fraud, no computer or computer system is 100 percent immune from virus attacks, if the power failure occur the information could be lost if not properly saved, significant upgrades of accounting software are sometimes costly, data entry is one of the boring job that can quickly drain you of all of your energy, the company data will not be private because the software company has access to it, and accounting software can be difficult to learn.

When one person starts a business, accounting software is one of the first business applications he or she need to get. There are many different types of accounting software available for businesses. Different firms have different accounting software needs. Some may only need generic, off the shelf accounting software, while others need customized, complex accounting software. QuickBooks online is the best overall accounting software for small businesses of those reviewed. Majority of small business accounting professionals use QuickBooks online, the software is cloud based and can be accessed through a web browser or through the mobile app. Xero is the best software for micro businesses that are looking for very simple accounting software. This software has a clean interface and also fully integrates with a third party payroll service. Fresh Books started as just invoicing software, it offers more customization for invoicing compared to other accounting software.

QuickBooks self-employed accounting software is the best choice for part time freelancers and independent contractors who primarily want to track their income and expenses for their tax return. Wave is an ideal accounting software platform for a service based small business. For many freelancers or service based businesses wave's free features will cover all of their accounting needs and it is the best free software. Sage 50cloud account is a set of accountancy and payroll products developed by sage group aimed at small and medium enterprises.

Accounting Suite is an excellent accounting software application best suited for small businesses looking for good inventory and management capability.

Accounting software is a computer application that helps accountants in documenting and reporting financial operations for a business. Good accounting software is must for entrepreneurs who want to see their business success. Accounting software is a crucial tool for any organization today. Accounting software requirements vary per company. Some organization will merely want generic, off the shelf accounting software, but others will require bespoke, sophisticated accounting software. Accounting software simplifies the process of doing, understanding, and analyzing accounting computations. Accounting software requires less office space since it eliminates the need for tangible data, which saves money on rent. Accounting software is developed by companies such as Intuit, Microsoft, SAP, and Oracle. There are many advantages in using accounting software. It saves time, eliminates the paper work, makes the work process effective, is cost effective, helps to secure data, helps to take care of tax procedures, improves decision making, and helps to have financial control.

There are disadvantages to everything, and accounting software is no different. High cost for maintenance, the system can be infected by viruses, it can be difficult to learn, accounting software can be expensive to update, fraud is possible if the company do not have hard copies of the data and accounting software can be buggy. Nowadays accounting software has become a vital need for any business. Business owners have realized that managing finances manually would not help them achieve the expected results. Without the help of accounting software, business owners or accounting managers will have to spend too much time creating financial reports and other documents or reconciling bank accounts and statements.

TAX SYSTEM IN COMPARISION TO USA

The Hardest thing in the world to understand is income tax. -Albert Einstein-

Taxation is the major instrument of fiscal policy which is used to achieve socio economic objectives. The primary objective of taxation is to raise revenue to finance government expenditure. Taxation has emerged as a major instrument of fiscal policy and has been used both for resource allocation, increased savings and economic growth. This article is all about our tax system in comparison to USA.

Tax system in USA fall into three main categories: **Progressive, proportional and Regressive**. The overall system of taxation in unites states is **progressive**. By progressive tax system, we mean that the percentage of income an individual(or household) pays in taxes tends to increase with increasing income. Not only do those with higher income pay more in total tax, they pay higher rate of tax. A tax system may also be regressive or proportional. A **regressive tax** system is one where the proportion of income paid in taxes tends to decrease as one's income increases. **A Proportional tax** system simply means that everyone pays the same tax rate regardless of income. The overall tax system of the United states, and in most other countries, is progressive for a number of reasons. Mainly a progressive tax embodies the concept that those with high incomes should pay more of their income in taxes because of their greater ability to pay without critical scarifies.

The federal income tax is the most visible, complicated, and debated tax in the U.S. It is levied on wages and salaries as well as income from many sources including interest, dividends, capital gains, self employment income, and prizes.

Taxation in Sri Lanka mainly includes **excise duties, value added tax, income tax and tariffs**. The Government of Sri Lanka imposes taxes mainly of two types in the forms of direct taxes and indirect taxes. Indirect taxes in the form of excise duties, VAT and tariffs are the key contributors to the government tax revenue with 74% while direct taxes including income tax, PAYE tax and Economic service charge contribute only around 9%. **Income tax** is charged on every person(residents and non-residents) on profits and income. Residents are charged on their global income while non-residents are charged on income arising in or derived from Sri Lanka. Sri Lanka has a self-assessment regime for income tax payments. Accordingly, any person liable to income tax is required to compute his/her tax liability and remit such tax in four quarterly installments. **Pay-As-You-Earn(PAYE)** scheme where the tax law imposes a liability on every employer to deduct the income tax from the remuneration of his employees at the time of making such payments to the employees.**VAT** is mainly a sales tax which is imposed at the point of import or supply of any goods and services. The VAT act also lists certain items which are exempt.

Holding onto information provided above, not only Sri Lanka and USA, every country has its own system for calculating taxes based on their countries internal and external operations.

By: N.Shasalya
(2019/BS/33)

We calculate goodwill in partnership accounts. But why don't we calculate goodwill in company accounts?

First of all, let's introduce what is the partnership accounts and company accounts. Partnership is an association of persons who agree to combine their financial resources and managerial abilities to run a business and share profits in an agreed ratio.

Company accounts are disclosure of the financial information of a company. Usually provided in the form of a profit and loss account and a balance sheet. Company accounts are usually filed annually.

Then let's explain what is goodwill mean. A business builds up some reputation after it has continued for some time. If the reputation is good, it will start getting a good number of customers. The satisfied customers will come again and again and goodwill become permanent customer. This helps the business to earn more profit. This means good profit is the results of the reputation that the business built up. In according, this is a very valuable asset and is known by the name of goodwill.

Now let's talk direct point. Why can't see any goodwill adjustment for company accounts. According to accounting standards 38 (IFRS 38), the reputation generated internally cannot be identified. Business type doesn't apply to follow this rule. Whether it is a company or partnership or another business whatever this rule is common. Accordingly, the good will of the estimate can't be shown in the books when there is a change in the profit or loss distribution structure between the partners in partnership business

However, there is no open market for partnership. But there is such a market for the ownership of a public company. Company's shares are traded in the market so owners can gain market value. Therefore, a shareholders of a company can sell his ownership in the market at any time.

The impact of reputation on the fairness of all partners in influence of partners exist, entry, change in profit margin adjusts to the ownership of each partners. As a value generated internally by a limited company is equally included in each segment and can be marketed. So it is not necessary to make internal adjustment.

But when the profit sharing ratio between the partners in a partnership changes, the owner's ownership can be affected if there is no adjustment for the unrecorded value generated internally. It doesn't apply to limited company. Because it is the same ratio. That distributes its profits So I think this answer is enough for understanding above particular question.

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2019/BS/191
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1ST YEAR

HISTORICAL DEVELOPMENT OF ACCOUNTING SYSTEM

Overview

- Because natural resources are limited, people have to know food crops, and raise domesticated animals to be able to sustain life.

- During cropping and livestock, human observed, recorded the wastage and labour spent to achieve results, then compare, evaluate what to plant, what brings most benefit.

The primitive form of Accounting was created

What is accounting?

- Accounting is an information system that provides quantitative, financial information to stakeholders about the economic activities and condition of a business so that they can make business/economic decisions.

Historical Development of Accounting

Briefly history of Accounting

- **Dating back about 10,000 years, the first accounting system probably consisted of stones used to represent wealth.**

- **Accounting began as a simple system of clay tokens to keep track of goods and animals, before developing complex transactions and other financial information.**

Early Accounting

- **Accountancy has its roots in the earliest history of civilization. With the rise of agriculture and trade, people needed a way to keep track of their goods and of transactions.**

- **Around 7500 B.C., Mesopotamians began using clay tokens to represent goods, such as animals, tools, food items or units of grain**

- **Starting around 3000 B.C., the Chinese developed the abacus, a tool for counting and calculating.**

Double-entry Bookkeeping and Luca Pacioli

- **During and after the Crusades, European trade markets opened up to Middle Eastern trade, and European merchants, especially in Genoa and Venice, became increasingly wealthy**
- **They needed a better way to keep track of large amounts of money and complex transactions, and this led to the development of double-entry bookkeeping.**
- **Double-entry bookkeeping means that each transaction is recorded at least twice, as a debit from one account and a credit to another**

- **In 1494, Luca Pacioli published a math book titled "Summa de arithmetica, geometria, proportione et proportionalita," which contained a description of double-entry accounting gave valuable tool for keeping track of detailed financial information.**

- **Luca Pacioli is often called the "Father of Accounting"**

The Industrial Revolution and the Rise of Professional Accountancy

- **Accounting developed further advent of the Industrial Revolution in the late 18th centuries**
- **Help business owners and managers understand how best to make their businesses as cost**
- **efficient as possible**
- **People began to specialize in accountancy**
- **Thus becoming the first professional public Accountants**

- Modern Professional Accounting

- **Today, accounting is a business unto itself, with thousands of practitioners worldwide and a large number of professional organizations and official guidelines to codify practices and requirements.**
- **The Generally Accepted Accounting Principles, or GAAP, set forth the standards by which public accountants must do business. Every country has a similar set of accounting guidelines.**

- Specialized Accounting

- **Due to the complex nature of today's economic system, specialized branches of accounting have developed.**

- **In addition to traditional financial accounting, accounting, fund accounting and project accounting. there are now subdivisions, such as tax accounting, management accounting, lean accounting , fund accounting and project Accounting**
- **Professional accountants are required for understanding of business needs and accountancy practices**

FINANCIAL ACCOUNTING

Financial accounting is the field of accounting concerned with the summary, analysis and reporting of financial transactions related to a business. This involves the preparation of financial statements available for public use. Stockholders, suppliers, banks, employees, government agencies, business owners, and other stakeholders are examples of people interested in receiving such information for decision making purposes.

In a practical sense, the **main objective** of financial accounting is to accurately prepare an organization's financial accounts for a specific period, otherwise known as financial statements.

A company's financial statements serve several purposes. They provide important information to shareholders and loan creditors, which can help to improve investment interest. The financial statements are used internally by management to manage both the current operations and future activities of the firm. The financial statements also provide information for all types of investors to prepare an analysis using trends, ratios and industry comparisons.

Financial accounting plays an important role of communicating the financial results of a business entity to the users to enable them make decisions. Accounting is usually deemed as a business language because it communicates valuable information to various interested groups. Accounting plays an important role of communicating past and present performance of a business entity and this enables the users to determine whether business operations are carried out in effective and efficient manner.

Accounting is also used as a tool of meeting legal requirements. Business are required to keep their accounts in an orderly manner facilitate such legal requirements such as tax assessment.

Financial statements entail the end products which are prepared from the adjusted trial balance. There are four basic financial statements namely; income statement, statement of financial position, cash flow statement and changes in owners equity.

An **income statement** is one of the three important financial statements used for reporting a company's financial performance over a specific accounting period, with the other two key statements being the balance sheet and the statement of cash flows.

Also known as the profit and loss statement or the statement of revenue and expense, the income statement primarily focuses on the company's revenues and expenses during a particular period.

The term **balance sheet** refers to a financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time. Balance sheets provide the basis for computing rates of return for investors and evaluating a company's capital structure. In short, the balance sheet is a financial statement that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders. Balance sheets can be used with other important financial statements to conduct fundamental analysis or calculating financial ratios.

The **cash flow statement** is a financial statement that enables tacking of sources and uses of funds. The totals of cash flows are crucial as they show whether a business is successful or not because cash is key with regards to efficient functioning of an entity.

A **statement of change in equity** is a business' financial statement that measures the changes in owners' equity throughout a specific accounting period.

Financial statement notes are the supplemental notes that are included with the published financial statements of a company. The notes are used to explain the assumptions used to prepare the numbers in the financial statements, as well as the accounting policies adopted by the company.

The statements are interrelated with each other in that they provide the various users with relevant financial information for decision making.

Financial statements is useful to the following users i.e. managers, investors, creditors, and employees. Information contained in financial statements enables managers to highlight financial strength and weaknesses of a business entity. It enables them to predict the financial crises that can affect their business and thus to take corrective measures in advance. Financial statement information is valuable to investors as it enables them to know the profitability of a business entity and thus make decisions on whether to invest or not. Creditors are concerned with the financial statement information in order to determine the liquidity position of a firm and to know whether the firm will meet their short term claims. The employees require financial statement information in order to know whether is i n a position to increase their wages.