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QNO1

IAS 2

Inventories contain the requirements on how to account for most types of inventory. The standard requires inventories to be measured at the lower of cost and net realizable value (NRV) and outlines acceptable methods of determining cost, including specific identification (in some cases) first-in first-out (FIFO) and weighted average cost.
A revised version of IAS 2 was issued in December 2003 and applies to annual periods beginning on or after.

September 1974	Exposure Draft E2 *Valuation and Presentation of Inventories in the Context of the Historical Cost System* published	
October 1975	IAS 2 *Valuation and Presentation of Inventories in the Context of the Historical Cost System* issued	
August 1991	Exposure Draft E38 *Inventories* published	
December 1993	IAS 9 (1993) *Inventories* issued	Operative for annual financial statements covering periods beginning on or after 1 January 1995
18 December 2003	IAS 2 *Inventories* issued	Effective for annual periods beginning on or after 1 January 2005

IMPORTANCE

IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance for determining the cost of inventories and for subsequently recognizing an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

IAS 7

IAS 7 *Statement of Cash Flows* requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities, with the latter two categories generally presented on a gross basis.
IAS 7 was reissued in December 1992, retitled in September 2007, and is operative for financial statements covering periods beginning on or after 1 January 1994.

Date	Event
June 1976	Exposure Draft E7 *Statement of Source and Application of Funds*
October 1977	IAS 7 *Statement of Changes in Financial Position*
July 1991	Exposure Draft E36 *Cash Flow Statements*
December 1992	IAS 7 (1992) *Cash Flow Statements*
1 January 1994	Effective date of IAS 7 (1992)
6 September 2007	Retitled from *Cash Flow Statements* to *Statement of Cash Flows* as a consequential amendment resulting from revisions to IAS 1
16 April 2009	IAS 7 amended by Annual Improvements to IFRSs 2009 with respect to expenditures that do not result in a recognised asset.
1 July 2009	Effective date for amendments from IAS 27(2008) relating to changes in ownership of a subsidiary
1 January 2010	Effective date of the April 2009 revisions to IAS 7

29 January 2016	Amended by *Disclosure Initiative (Amendments to IAS 7)*
1 January 2017	Effective date of the January 2016 revisions to IAS 7

IMPORTANCE

IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows, which classifies cash flows during the period according to operating, investing, and financing activities.

IAS 18

Revenue outlines the accounting requirements for when to recognize revenue from the sale of goods, rendering of services, and for interest, royalties and dividends. Revenue is measured at the fair value of the consideration received or receivable and recognized when prescribed conditions are met, which depend on the nature of the revenue.
IAS 18 was reissued in December 1993 and is operative for periods beginning on or after 1 January 1995.

April 1981	Exposure Draft E20 *Revenue Recognition*
December 1982	IAS 18 *Revenue Recognition*
1 January 1984	Effective date of IAS 18 (1982)
May 1992	E41 *Revenue Recognition*
December 1993	IAS 18 *Revenue Recognition* (revised as part of the 'Comparability of Financial Statements' project)
1 January 1995	Effective date of IAS 18 (1993) *Revenue Recognition*
December 1998	Amended by IAS 39 *Financial Instruments: Recognition and Measurement*, effective 1 January 2001
16 April 2009	Appendix to IAS 18 amended for Annual Improvements to IFRSs 2009. It now provides guidance for determining

	whether an entity is acting as a principal or as an agent.
1 January 2018	IAS 18 will be superseded by IFRS 15 *Revenue from Contracts with Customers*

IMPORTANCE

IAS 18 is to prescribe the accounting treatment for revenue arising from certain types of transactions and events.

IAS 38

Research is original and planned investigation, undertaken with the prospect of gaining new scientific or technical knowledge and understanding. An example of research could be a company in the pharmaceuticals industry undertaking activities or tests aimed at obtaining new knowledge to develop a new vaccine. The company is researching the unknown, and therefore, at this early stage, no future economic benefit can be expected to flow to the entity.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services, before the start of commercial production or use. An example of development is a car manufacturer undertaking the design, construction, and testing of a pre-production model.

IMPORTANCE

The accounting for research and development involves those activities that create or improve products or processes. The core accounting rule in this area is that expenditures be charged to expense as incurred.

QNO2

FRS 10

Consolidated Financial Statements outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

Date	**Development**	**Comments**
April 2002	Project on consolidation added to the IASB's agenda (project history)	
18 December 2008	ED 10 *Consolidated Financial Statements* published	Comment deadline 20 March 2009
29 September 2010	Staff draft of IFRS X *Consolidated Financial Statements* published	
12 May 2011	IFRS 10 *Consolidated Financial Statements* published	Effective for annual periods beginning on or after 1 January 2013
28 June 2012	Amended by *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (project history)	Effective for annual periods beginning on or after 1 January 2013
31 October 2012	Amended by *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* (project history)	Effective for annual periods beginning on or after 1 January 2014
11 September 2014	Amended by *Sale or*	~~Effective for annual~~

	Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	~~periods beginning on or after 1 January 2016~~ deferred indefinitely (see below)
18 December 2014	Amended by *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)* (project history)	Effective for annual periods beginning on or after 1 January 2016
17 December 2015	Amended by *Effective Date of Amendments to IFRS 10 and IAS 28*	defer the effective date of the September 2014 amendments to these standards indefinitely

IMPORTANCE

IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

A practical guide to implementing IFRS 10 Are you in control Contents Consolidated and Separate Financial Statements IAS 27 and. SIC-12 a significant part of our guide to exploring the three elements of control. An investee but the disclosure requirements are dealt with in a separate standard IFRS 12.

IFRS 13

Fair Value Measurement applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

IFRS 13 was originally issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

Date	Development	Comments
September 2005	Project on fair value measurement added to the IASB's agenda	History of the project
30 November 2006	Discussion Paper *Fair Value Measurements* published	Comment deadline 2 April 2007
28 May 2009	Exposure Draft *Fair Value Measurement* published	Comment deadline 28 September 2009
29 June 2010	Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* published	Comment deadline 7 September 2010
19 August 2010	Staff draft of a IFRS on fair value measurement released	
12 May 2011	IFRS 13 *Fair Value Measurement* issued	Effective for annual periods beginning on or after 1 January 2013
12 December 2013	Amended by *Annual Improvements to IFRSs 2010–2012 Cycle* (short-term receivables and payables)	Amendment to the basis for conclusions only
12 December 2013	Amended by *Annual Improvements to IFRSs 2011–2013 Cycle* (scope of portfolio exception in paragraph 52)	Effective for annual period beginning on or after 1 July 2014

IMPORTANCE

- Defines fair value
- Sets out in a single IFRS a framework for measuring fair value
- Requires disclosures about fair value measurements.

Many other IFRSs require or permit the use of fair value but prior to IFRS 13 dealt with the application of the guidance on Layered within the requirements of IFRS 13 are specific considerations related to certain elements of the financial.

QNO3

INCOME STATEMENT AND ITS IMPORTANT

An income statement, otherwise known as a profit and loss (P&L) statement and profit and loss (P&L) account, is a record that measures and shows all the expenses and revenues a company incurred during a specific period of time. The income statement helps determine a company's financial health and the financial progress it made during a particular period. The income statement contains sections for revenue and expenses, which include net sales, gross profit, cost of goods sold, selling expenses, general and administrative expenses, and net profit. Small businesses can easily prepare an income statement using popular accounting software, such as XERO or QuickBooks. Businesses should consistently prepare a profit and loss statement in order to determine whether they are making profit or loss and why. In order to have an accurate income statement, accurate bookkeeping is necessary.

WHY SMALL BUSINESSES NEED TO PREPARE AN INCOME STATEMENT

There are many reasons why small businesses should be preparing income statements – and other financial statements. Here are three good reasons:

Helps Make Better Decisions

With a profit and loss statement on hand, a business owner is able to look at the past financial performance of their company. With essential data at hand, from sales to profits and operating and non-operating aspects, a business owner will be able to make better financial decisions. By having accurate figures, a business owner is able to make swift decisions, which would otherwise require unreliable guesswork.

Acts as a Proof of Business Success

Having income statements on paper means that a business owner is able to show a chronological record of how their business has been performing over the course of its existence. This ultimately allows a business owner to play the cards right around the stakeholders, or with the buyers if the owner has the intent of selling the business. A P&L account also becomes useful when new clients who wish to do business want a solid proof of a business' success.

Helps Prepare a Business to File Taxes

A small business and its owner are subject to various forms of business taxes. Paying these taxes is obligatory by law. In order to ensure what tax liabilities a business has, income statements and other financial statements help a lot. Accurate and up-to-date income statements (along with other financial statements) give a business owner all the necessary information they need to calculate various taxes. An income statement is one of the very important records that every business must

prepare. Preparing an accurate income statement and other financial statements can be challenging for a business owner; however, professional help is available! Get in touch with Affinity Associates and engage their skilled accountants for small business in London. Affinity Associates is a reputable provider of professional accountancy services for small business in the UK. They have some of the most skilled and experienced accountants and tax accountants for small business in London, who can help business owners, prepare all the essential financial statements, from journals and ledgers to income statements and balance sheets. These accountants for small business in London can also assist businesses to prepare and file various taxes.

BALANCE SHEET AND ITS IMPORTANCE

Through this document, you can analyze and monitor some of your company's financial indicators, sometimes with the help of other documents. This shows that a balance sheet is an instrument used for analysis and decision making just like indicators.

Take a look at these five indicators and the results that they offer.

Net profit margin

This margin indicates how much money your company generates with every sale or service it offers.

To calculate it, divide the total revenues for a given period by the net profits, which can be found in the income statement. Then multiply this result by 100 to determine the net profit margin percentage.

Profit growth rate

One of the totals found in the balance sheet is the company's accumulated profit during its entire existence.

With the current year's balance sheet and those from previous years in hand, you can calculate your company's profit growth year after year.

Return on equity

By dividing the equity listed on the balance sheet by the company's net revenues, you can calculate the return on equity percentage, which indicates how much money your capital and other equity investments generate for your business.

Return on assets

Specifically in relation to the document's assets, such as vehicles, real estate, equipment and mobile assets, the return on assets shows how much money they generate, taking into consideration the investments made in acquiring them.

Beyond this, to obtain more specific results, you can make this calculation just using a portion of the revenues and one element of the assets.

For example, an insurance company that offers corporate cars to its salespeople can divide the total value of signed contracts by the value of the use of the car utilized by the salesperson responsible to achieve these sales. Or, when dealing with the opening of a new office, you can divide the total revenues by the equity investment made to open it. You need this to determine, within a more complex panorama which involves other factors the total return on investment of this expansion.

Debt ratio

To obtain this ratio, you need to sum the company's short term liabilities and divide them by its total assets. Then you can multiply this result by 100 to obtain this ratio in percentage form. Analyzing this indicator, the lower the ratio is, the better it is for your company. If it is very high, it's time to evaluate your costs and even your processes one at a time to decrease your debt and increase your gross and net revenues.

Is the accounting record mandatory?

Now that you know what the balance sheet is and all its structure and importance, let us understand the obligation of accounting records, which are used to compile all the financial transactions of your business, including assets, rights and

obligations. The accounting record is mandatory and valid for any type of company. In addition, organizations must also present the recorded facts, which are the financial records themselves cataloged in the daily ledger. To do so, they need to be updated and provide real information on the current moment of the organization.

What are the consequences of not having the balance sheet?

The balance sheet is more than just an obligation. This document can assist in different processes and situations to which your company will be exposed. Therefore, see below the main consequences of not having or keeping your balance sheet updated or at hand.

Defense for tax proceedings

The balance sheet is an important resource of evidences for tax proceedings, and the information in this document can be used during the discussions. However, when a company does not present it, the defense will become more fragile and will prove that the organization is not compliant, and does not even have its documents and processes organized.

Exempt profits above Presumption

According to Income Tax (IT) standards, companies that do not present financial statements that indicate the profit have its revenues demarcated in 8%, which is the limit of presumption of income for companies in the industrial and commercial sector, and in 32% for businesses that operate with the provision of services.

Performance Analysis

The financial performance of your company will be known with this document, as it reveals important data on profit, among other indicators.Therefore, by neglecting it, the company will be at the mercy of the cash flow alone, which is not complete enough to aid in performance and strategy analyses that improve the business behavior. In addition, as it is mandatory, your company will not be able to file a request for court-supervised reorganization.

STATEMENT OF RETAIN EARNING AND ITS IMPORTANCE

A statement of retained earnings indicates the total owners' equity in the business at a specific period in time. The owners' equity is simply calculated by subtracting the firm's total assets from its total liabilities. This basic financial statement is important to a variety of stakeholders, including the shareholders, the board of directors, potential investors and creditors.

Importance to Shareholders

The retained earnings statement is important to shareholders because it indicates how much equity they collectively hold in the company. The retained earnings are, essentially, the total amount of money that shareholders are entitled to -- though they can only receive the money when a dividend is paid out at the discretion of the board of directors. By dividing the retained earnings by the number of outstanding shares, shareholders can calculate how much money one share entitles them to.

Importance to Board

The retained earnings statement tells the board of directors how much money they have to either invest in the firm or redistribute to shareholders. The board of directors is responsible to shareholders and must ultimately make a decision in their interest. They may either use the money to invest further in the firm or they can convert the retained earnings into a dividend that is paid out to shareholders.

Importance to Investors

Potential investors will look carefully at the retained earnings statements for the firms that they are considering investing in. They will look not only at the most recent retained earnings statement but at statements over time. This can give investors a sense of how much money they can reasonably expect to earn from their investments.

Importance to Creditors

Creditors will look at a variety of performance measures, including retained earnings, before issuing credit to a business. High retained earnings indicate that the firm is profitable and should have few problems repaying its debts. Low or nil retained earnings indicate that the firm may have problems repaying its loans;

creditors may, therefore, choose not to extend credit to these businesses or they may charge a higher rate of interest to compensate for the risk.

IMPORTANCE OF CASH FLOW STATEMENT

Having cash is a key requirement for a business to stay solvent. When a business has no longer enough cash to pay its dues, it is often declared bankrupt. In fact in the business world, small businesses rarely produce a cash flow report, as profit and loss report is sufficient for their needs. It is unlikely that a small business such as a bakery will involve complex non cash transactions that would warrant such information.

In these situations, a profit and loss statement is not always sufficient, and a cash flow report is valuable to many users, such as banks and shareholders.

QNO4

Financial ratios are used to express one financial quantity in relation to another and can assist with company and security valuations, as well as with stock selections, and forecasting. A variety of categories may be used to classify financial ratios. Although the names of these categories and the ratios that are included in each category can vary significantly, common categories that are used include: activity, liquidity, solvency, profitability, and valuation ratios. Each category measures a different aspect of a company's business; however, all are useful for evaluating a company's overall ability to generate cash flows from operating its business.

Activity Ratios

Activity ratios, also known as asset utilization ratios or operating efficiency ratios, measure how efficiently a company performs its daily tasks such as managing its various assets. They generally combine income statement information in the numerator and balance sheet information in the denominator.

The list below provides a description of the most commonly used activity ratios:

Inventory turnover

Computation: Cost of goods sold/Average inventory

Interpretation: The ratio can be used to measure the effectiveness of inventory management. A higher inventory turnover ratio implies that inventory is held for a shorter time period.

Days of inventory on hand (DOH)

Computation: Number of days in period/Inventory turnover

Interpretation: The ratio can also be used to measure the effectiveness of inventory management. A lower DOH implies that inventory is held for a shorter time period.

Receivables turnover

Computation: Revenue/Average receivables

Interpretation: This measures the efficiency of a company's credit and collection processes. A relatively high receivables turnover ratio may indicate that a company has highly efficient credit and collections, or it could imply that a company's credit or collection policies are too stringent.

Days of sales outstanding (DSO)

Computation: Number of days in period/Receivables turnover

Interpretation: This measures the elapsed time between a sale and cash collection, and reflects how fast a company collects cash from customers to whom it offers credit. A low DSO indicates that a company is efficient in its credit and collection processes.

Payables turnover

Computation: Purchases/Average trade payables

Interpretation: These measures how many times per year a company theoretically pays off all its creditors.

Number of days of payables

Computation: Number of days in period/Payables turnover

Interpretation: This reflects the average number of days that a company takes to pay its suppliers.

Working capital turnover

Computation: Revenue/Average working capital

Interpretation: This indicates how efficiently a company generates revenue with its working capital. A high working capital turnover ratio indicates greater efficiency.

Fixed asset turnover

Computation: Revenue/Average net fixed assets

Interpretation: This measures how efficiently a company generates revenues from its investments in fixed assets. A higher fixed asset turnover ratio indicates a more efficient use of fixed assets in generating revenue.

Total asset turnover

Computation: Revenue/Average total assets

Interpretation: This measures a company's overall ability to generate revenues with a given level of assets. A low asset turnover ratio can be indicative of inefficiency or of the relative capital intensity of the company.

Liquidity Ratios

Liquidity ratios measure a company's ability to satisfy its short-term obligations. The list below provides a description of the most commonly used liquidity ratios. These ratios reflect a company's position at a point in time and, therefore, usually uses ending balance sheet data rather than averages.

Current ratio

Computation: Current assets/Current liabilities

Interpretation: A higher current ratio indicates a higher level of liquidity or ability to meet short-term obligations.

Quick ratio

Computation: (Cash + Short-term marketable investments + Receivables)/Current liabilities

Interpretation: A higher quick ratio indicates a higher level of liquidity or ability to meet short-term obligations. It is a better indicator of liquidity than the current ratio in instances where inventory is illiquid.

Cash ratio

Computation: (Cash + Short-term marketable investments)/Current liabilities

Interpretation: The ratio is a reliable measure of liquidity in a crisis situation.

Defensive interval ratio

Computation: (Cash + Short-term marketable investments + Receivables)/Daily cash expenditures

Interpretation: This measures how long a company can pay its daily expenditures using only its existing liquid assets, without any additional cash inflow.