**FINANCIAL ACCOUNTING**

**MBA-NB**

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**QUESTION 1:** Describe Accounting Cycle in your own words?

**ANSWER**

1. **ACCOUNTING CYCLE**.

Accounting cycle is a step-by-step process of recording, classification and summarization of economic transactions of a business. It generates useful financial information in the form of [financial statements](https://xplaind.com/744344/financial-statements) including income statement, balance sheet, cash flow statement and statement of changes in equity. The [time period principle](https://xplaind.com/605604/time-period) requires that a business should prepare its financial statements on periodic basis. Therefore accounting cycle is followed once during each accounting period. Accounting Cycle starts from the recording of individual transactions and ends on the preparation of financial statements and closing entries.

1. **STEPS IN ACCOUNTING CYCLE.**

Following are the steps that normally an accounting cycle involves.

1. **Analysing and Classify Data about an Economic Event.**

Identifying the transactions from the events is the first step in the accounting process. Events are analysed to find the impact on the financial position or to be more specific the impacts on the accounting equation.Documents such as; a receipt, an invoice, a depreciation schedule, and a bank statement, etc. provide evidence that an economic event has actually occurred.

1. **Journalizing the transaction**

Transactions having an impact on the financial position of a business are recorded in the general journal.In the general journal, the transactions are recorded as a debit and a credit in monetary terms with the date and short description of the cause of the particular economic event.

1. **Posting from the Journals to the General Ledger**

Transactions recorded in the general journal are then posted to the general ledger accountsThe accounts classify accounting data into certain categories and they are recorded in general journal entries according to that classification.Depending on the frequency of the transactions posting to ledger accounts may be less frequent.

1. **Preparing the Unadjusted Trial Balance**

To determine the equality of debits and credits as recorded in the general ledger, an unadjusted is prepared. It is a way to investigate and find the fault or prove the correctness of the previous steps before proceeding to the next step.Unadjusted trial balance makes the next steps of the accounting process easy and provides the balances of all the accounts that may require an adjustment in the next step. The unadjusted balance sheet is for internal use only.

1. **Recording Adjusting Entries**

Adjusting entries ensure that the revenue recognition and matching principles are followed. To find the revenues and expenses of an accounting period adjustments are required.

Adjusting entries are required to be is because a transaction may have influence revenues or expenses beyond the current accounting period and to journalize to the events that not yet recorded.

1. **Preparing the Adjusted Trial Balance**

An adjusted trial balance contains all the account titles and balances of the general ledger which is created after the adjusting entries for an accounting period have been posted to the accounts.

It is an internal document and is not a financial statement.

It helps to create the income statement and balance sheet and provide enough information for preparing the cash flow statement.

1. **Preparing Financial Statements**

Financial statements are prepared from the balances from the adjusted trial balance. The financial statements are made at the very last of the accounting period.

Cash flow statement, income statement, balance sheet and statement of retained earnings; are the financial statements that are prepared at the end of the accounting period.

This is the output of the accounting process, which is used by the interested parties both within and out of the organization.

1. **Recording Closing Entries**

At the end of an accounting period, Closing entries are made to transfer data in the temporary accounts to the permanent balance sheet or income statement accounts.

Transferring the balances of the temporary accounts or nominal accounts (e.g. revenue, expense, and drawing accounts) to the owner’s equity or retained earnings account is used because these types of accounts only affect one accounting period.

1. **Preparing a Closing Trial Balance**

To make sure that debits equal credits, the final trial balance is prepared. As the temporary ones have been closed only the permanent accounts appear on the closing trial balance to make sure that debits equal credits.

1. **Recording Reversing Entries**

Posit closing entries is an optional step of the accounting cycle. A reversing journal entry is recorded on the first day of the new period for avoiding double counting the amount when the transaction occurs in the next period.

1. **CONCLUSION.**

At the end it could be said that the primary objective of the accounting cycle in an organization is to process financial information and to prepare financial statements at the end of the accounting period.An accounting cycle is a continuous and fixed process that needs to be followed accordingly.Maintenance of the continuity accounting cycle is important.

END OF QUESTION NO: 1

**QUESTION 2**: Explain the Accounting Concepts?

**ANSWER:**

1. **MEANING OF ACCOUNTING:**

Accounting is all about the process that helps to record, summarize, analyze, and report data that concerns financial transactions.

1. **ACCOUNTING CONCEPTS:**

Following are the basic accounting concepts in brief.

1. **Business entity concept:**  A business and its owner should be treated separately as far as their financial transactions are concerned.
2. **Money measurement concept:**  Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.
3. **Dual aspect concept:**  For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect.
4. **Going concern concept:**  In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at “fire-sale” prices.
5. **Cost concept:**  The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.
6. **Accounting year concept:**  Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
7. **Matching concept:**  This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
8. **Realisation concept:**  According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.
9. **Accrual Concept**: According to this concept the revenue is recognized on its realisation and not on its actual receipt. Similarly, the costs are recognized when they are incurred and not when payment is made. This assumption makes it necessary to give certain adjustments in the preparation of income statement regarding revenues and costs. But under cash accounting system, the revenues and costs are recognized only when they are actually received or paid. Hence, the combination of both cash and accrual system is preferable to get rid of the limitations of each system
10. **Objectivity Concept:** This concept implies that all accounting transactions should be evidenced and supported by business documents, i.e., invoices, vouchers etc. The evidence substantiating the business transactions should be objective, i.e., free from the bias of the accountant or others. These supporting documents form the basis for record of entries and of audit. Accounting record based on documentary evidence is readily and objectively verifiable and therefore universally acceptable.

## CONCLUSION:

In the end it can be argued that accounting concepts are postulates, assumptions or conditions upon which accounting records and statement are based.

END OF QUESTION NO2.

**QUESTION 3**:What is balance sheet, why it is necessary to be prepared?

**ANSWER:**

**1.BALANCE SHEET:**

A balance sheet is one of several major financial statements you can use to track spending and earnings. Also called a statement of financial position, a balance sheet shows what your company owns and what it owes through the date listed. It displays this information in terms of your company’s assets, liabilities, and equity.

**2.MAJOR PARTS OF BALANCE SHEET.**

1. **Assets**: There are two primary types of assets: current and noncurrent. Current assets are items your business has acquired over time that will be used up or converted into cash within one year, or one business cycle, of the date on the balance sheet. Prepaid insurance, accounts receivables, temporary investments, cash, inventories, and liabilities are considered current assets. Noncurrent assets are any fixed assets or items your business owns. Things that fall into this category are office equipment, building property, land, long-term investments, stocks, and bonds.
2. **Liabilities:** Just like assets, there are current and noncurrent liabilities. Current liabilities represent payment obligations your company has to pay within 12 months of the date on the balance sheet. For example, an outstanding bill to an equipment supplier could be a current liability, as could salaries payable and income taxes payable. Noncurrent liabilities are amounts your company has more than one year to pay. Bondholder and bank debt are considered noncurrent liabilities. You and your accountant can identify the liabilities on balance sheets by looking for the word “payable.” Again, these liabilities are some of the sources of your company’s assets.
3. **Equity:** Another asset source is equity. If you are the sole proprietor of your business, this is referred to as owner’s equity. If your business is a corporation, equity is called stakeholder’s equity. When all liabilities are subtracted from your company’s assets, the result is equity. Equity is made up of paid-in capital and retained earnings. Paid-in capital is the amount each shareholder initially paid for his or her stock. Retained earnings refers to the amount of money your business didn’t sell to shareholders and instead reinvested into itself.

**3.IMPORTANCE OF BALANCE SHEET.**

The importance of balance sheet can be summarised as follow.

1. I**nvestors and Loans**

Your balance sheet is an ever-changing document on which you constantly write in new assets you acquire or new liabilities that your company undertakes. When updated frequently, your balance sheet will give potential lenders and investors the information they need to make informed decisions about lending you money or other resources. It shows your business assets, liabilities and net worth, and when compared to earlier versions, your current balance sheet even reflects your company’s ability to collect and pay debts over time. This is extremely important to investors as your balance sheet indicates whether or not you will be able to pay investors back.

1. **Planning with Balance Sheet Analysis**

Your balance sheet gives you an organized view of your current liabilities, including short-term debt in the form of your accounts payable, which is inventory or services you have purchased from other businesses, and your accrued expenses. Those are items, such as wages to employees or taxes, that will soon become due. Your balance sheet also outlines your long-term debt, such as loans. As a business owner, you can compare these figures and accounts to the assets you own. Those often include cash, land, prepaid accounts, inventory, equipment and accounts receivable, which are the goods or services you have provided to customers that still need to be paid for. Looking at these items can help you determine which liabilities are a priority to take care of and which assets can be adjusted or collected to help your company’s cash flow.

1. **Helpful Financial Ratios**

In the business world, there are several helpful ratios that people use to determine a company’s long-term profitability and short-term financial outlook. These numbers are of particular interest to those concerned about the credit or sustainability of your company and to anyone considering purchasing your company or shares of it. These ratios include the current ratio and the acid test or liquidity ratio, and they are calculated using information from your balance sheet.

**4.CONCLUSION.**

In conclusion it can be said that preparing and understanding your company’s financial statements is an important part of being a small business owner. The balance sheet is particularly helpful in that it keeps both you and your stakeholders informed of your financial standing. Keeping this information updated can help you make better management decisions. In addition, it may improve your business’s operational efficiency, borrowing habits, and overall financial health.

END OF QUESTION NO 3