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Introduction to Financial Accounting

Questionno1

A partnership is a form of business where two or more people share ownership, as well as the responsibility for managing the company and the income or losses the business generates.

The following are the advantages of partnership form of organisation:

1. EASY FORMATION:

Like sole proprietorship, partnership form of organisation can be formed without legal formalities. No formal documents are required to be prepared as required in the case of joint stock companies. An agreement which may be oral or written is sufficient to enter into partnership form of organisation. Even the registration of partnership is not compulsory.

1. Large Resources:

The partnership form of organisation enjoys large “resources so that the scale of operation can be enlarged

1. Flexibility:

The business is, abundantly mobile, flexible, and elastic being free from legal restriction on its activities. The partners can introduce any change they consider desirable to meet the changed circumstances.

1. Combined Skill and Balanced Judgement:

The partnership form of organisation enjoys the benefit of the ability, experience, and talents of the partners. This is the distinctive advantage partnership enjoys over the sole proprietor because everything is done by mutual consultation.

1. Sharing of Risk:

Any loss sustained by the firm will be borne by all the partners equally with the benefit that the burden borne by each partner will be much less whereas the sole proprietor has to bear the entire loss of the business.

1. The Personal Element:

The personal element in the business and the corresponding care, efficiency and economy are ensured. There is, thus an effective motivation to production. The supervision of staff can also be carried out effectively, as partners, personally act in the management of the affairs of the partnership firm.

1. Maintenance of Secrecy:

The partners of partnership firm can keep the business to themselves. In the case of a company, nothing is secret. A partnership firm is not expected to get its accounts audited and published as is necessary for a joint stock company. This is the distinctive advantage partnership enjoys over the joint stock company.

1. Prompt Decisions:

The partners of partnership firm exercise joint responsibility and meet frequently. This enables them to take decisions promptly, which is conducive to taking advantage of sudden opportunities.

1. Relationship between Reward and Work:

In partnership form of business organisation, there is an direct relation between reward and work. This enables the partners to put more labour to earn more and more profits. The more they work, the more will they be benefited.

1. Wholesome Effect of Unlimited Liability:

The fact that the liability of each partner is unlimited and each partner individually is liable to the full extent of his private fortune acts as a great check against reckless speculation.

1. Easy Dissolution:

Dissolution of the partnership concern is very easy. The partnership can be dissolved on the death, lunacy or insolvency of a partner. There are no legal formalities involved in the dissolution. If the partnership is ‘at will’ then any partner can get the partnership firm dissolved by giving notice to other partners.

Disadvantages of Partnership:

The partnership concern suffers from the following disadvantages:

1. Lack of Harmony:

There is always likelihood of lack of harmony amongst the partners. Difference of opinion very often results in disharmony and lack of management, when differences arise, each partner tries to blame the other partner about his dishonest dealings and working against the interest of the firm. This is bound to result in disruption and ultimate dissolution of the firm.

1. Limited Resources:

The limit that more than twenty cannot be member of partnership form of business organisation, limits the amount of capital that can be raised. Actually, in order to secure harmony amongst the members of the firm, the number has to be kept much smaller than allowed by the law. This further limits the resources with the result that the large scale business cannot be run by partnership form of organisation.

1. Instability:

The partnership form of organisation may come to an abrupt end on the death, lunacy or insolvency of the partner. The partnership may also be closed if a single partner expresses his desire to dissolve the partnership or to get it dissolved by the order of court on account of wrongful act of one or more other partners. The lack of trust among the partners may lead to dissolution of the firm.

1. Lack of Public Faith:

As the partnership concern is not subject to any regulation and no legal formation and functioning, the people have less faith in such organisation coupled with the fact that every now and then people listen to the dissolution of such partnership concerns. Moreover, people are note aware of the exact position of the business of the partnership, the reason is that the accounts of partnership concerns are not published.

1. Restricted Enterprise:

As the unlimited liability covers even the private fortune of the partners, the partners are bound to be over cautious. This restricts enterprise. In fact, the liability of individual partner may be regarded as excessive for most purposes. Therefore, the partnership form of business organisation tends to be useful only for small scale business, such as retail trade, a modern sized mercantile house or a very small manufacturing business.

1. Restriction on Transfer of Interest:

In partnership, no partner can transfer his interest to the third party. If he wants to do so, he will have to seek the consent of all the other partners. This restricts the liquidity of his investment. In case of a company, any shareholder can transfer his shares to the third party without the consent of other shareholders.

1. Loss to the Society:

The abruptly closure of the firm is a loss not to the firm but also to the society as a whole because the society is deprived of its products and some workers become out of job.

8.Liability after Retirement:

In partnership form of business organisation, the retiring partner continues to be liable for all acts done when he was a partner. In the case of a company of limited liability, the liability of the shareholder ceases immediately on the transfer of shares.

QUESTION NO 2

TIME SERIES ANALYSIS

A time series is a sequence of numerical data points in successive order. In investing, a time series tracks the movement of the chosen data points, such as a security’s price, over a specified period of time with data points recorded at regular intervals. There is no minimum or maximum amount of time that must be included, allowing the data to be gathered in a way that provides the information being sought by the investor or analyst examining the activity.

For example, suppose you wanted to analyze a time series of daily closing stock prices for a given stock over a period of one year. You would obtain a list of all the closing prices for the stock from each day for the past year and list them in chronological order. This would be a one-year daily closing price time series for the stock.

Periodic analysis

A periodic inventory system or the periodic inventory method is an accounting method in which you determine the amount of inventory at the end of each accounting period or in specified periods. Furthermore, a periodic inventory system requires a physical count for each period

A periodic function is a function that repeats its values at regular intervals, for example, the trigonometric functions, which repeat at intervals of 2π radians. Periodic functions are used throughout science to describe oscillations, waves, and other phenomena that exhibit periodicity.

QUESTION NO 3

Accounts payable = $77,000

Unearned ticket revenue = $36,000

Warranty liability = $25,000

Interest payble =$10,000

Mortgage payable = $150,000

Notes payable = $100,000

Sale tax payable = $14,000

Current liability

Accounts payable =77,000

Warranty liability =25,000

Unearned ticket revenue = 36,000

Interest payble = 10,000

Sale tax payable = 14,000

Mortgage payable = 110,000

                                     272,000

Non current liability

Mortgage payable =$ 110,000

Notes payable = $100,000

                             140,000

TOTAL LIABILITIES

A company liquidity is determined by its current ratio i.e dividing current assets by it’s current liability

Current ratio = c.a/c.2

Current ratio = 350,000

                       =272,000

Current ratio =1.28

Fun app company is liquid enough to pay it’s current liabilities because it’s current assets are 1.28 times more than its liabilities

QUESTION NO 4

MATCHING PRINCIPLE

The matching principle states that expenses should be recognized and recorded when those expenses can be matched with the revenues those expenses helped to generate. In other words, expenses shouldn’t be recorded when they are paid. Expenses should be recorded as the corresponding revenues are recorded. This matches the revenues and expenses in a period. In this sense, the matching principle recognizes expenses as the revenue recognition principle recognizes income.

COSTING PRINCIPLES

The cost principle is an accounting principle that records assets at their respective cash amounts at the time the asset was purchased or acquired.

GOING CONCERN ASSUMPTIONS

The going concern principle is the assumption that an entity will remain in business for the foreseeable future. Conversely, this means the entity will not be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices

MONITORY UNIT ASSUMPTION

Monetary unit assumption (also known as money measurement concept) states that only those events and transactions are recorded in books of accounts of the business which can be measured and expressed in monetary terms.

ECONOMIC ENTITY ASSUMPTION

Economic entity is one of the assumptions made in generally accepted accounting principles. … The “Economic entity assumption” states that the activities of the entity are to be kept separate from the activities of its owner and all other economic entities.

THE TIME PERIOD ASSUMPTION

The time period assumption states that the life of a business can be divided into equal time periods. These time periods are known as accounting periods for which companies prepare their financial statements to be used by various internal and external parties.The length of accounting period to be used for the preparation of financial statements depends on the nature and requirement of each business as well as the need of the users of financial statements. Normally, an accounting period consists of a quarter, six months or a year.

QUESTION NO 5

The accounting equation is considered to be the foundation of the double-entry accounting system. On a company’s balance sheet, it shows that a company’s total assets are equal to the sum of the company’s liabilities and shareholders’ equity.

Based on this double-entry system, the accounting equation ensures that the balance sheet remains “balanced,” and each entry made on the debit side should have a corresponding entry (or coverage) on the credit side.

The accounting equation helps to assess whether the business transactions carried out by the company are being accurately reflected in its books and accounts. Below are examples of items listed on the balance sheet:

Assets

Assets include cash and cash equivalents or liquid assets, which may include Treasury bills and certificates of deposit. Accounts receivables are the amount of money owed to the company by its customers for the sale of its product and service. Inventory is also considered an asset.

Liabilities

Liabilities are what a company typically owes or needs to pay to keep the company running. Debt, including long-term debt, is a liability, as are rent, taxes, utilities, salaries, wages, and dividends payable.

Shareholders’ Equity

Shareholders’ equity is a company’s total assets minus its total liabilities. Shareholders’ equity represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company’s debt was paid off.

Retained earnings are part of shareholders’ equity and are equal to the percentage of net earnings that were not paid to shareholders as dividends. Think of retained earnings as savings since it represents a cumulative total of profits that have been saved and put aside or retained for future use.”

Accounting Equation Formula and Calculation

ASSETS = LIABILITIES + EQUITY

For Example:

A sole proprietorship business owes $12,000 and you, the owner personally invested $100,000 of your own cash into the business. The assets owned by the business will then be calculated as:

$12,000 (what it owes) + $100,000 (what you invested) = $112,000 (what the company has in assets)

Assets=Liabilities + Equity

112,000=12,000        100,000

In a sole-proprietorship, equity is actually Owner’s Equity.  If the business in question is a corporation, equity will be held by stockholders, which uses stockholder’s equity but the basic equation is the same:

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