**School of Management and Social Sciences (Dept. of Business Administration)**

**Course Title: Principles of Accounting Student ID 13895**

**Instructor: Ms. Marium Saleem**

**Total marks= 30**

**Attempt ALL the questions. Solve the questions in MS word and then upload the document on SIC as an assignment.**

Q1. Listed below in random order are the items to be included in the balance sheet of ABC Corporation at December 31, 2019:

|  |  |
| --- | --- |
| Equipment $30,000 | Jack Downing, Capital ? |
| Land 5,00,000 | Buildings 5,00,000 |
| Accounts Payable 60,000 | Cash 22,000 |
| Accounts Receivable 10,500 | Furnishings 58,000 |
| Salaries Payable 35,000 | Snowmobiles 16,000 |
| Interest Payable 10,000 | Notes Payable 6,00,000 |

Prepare a balance sheet at December 31, 2019. (15 marks)

|  |
| --- |
| **General Journal** |
| **December 31, 2009** |
|  |  | **(1)** |  |  |
|  **Dec.**  |  **31**  | **Tutoring Revenue earned** |  **96,000**  |  |
|  |  |  | **Income Summary** |  |  **96,000**  |
|  |  | **To close Tutoring Revenue Earned** |  |  |
|  |  |  |  |  |  |
|  |  |  **(2)**  |  |  |
|  |  **31**  |  **Income Summary**  |  **66,100**  |  |
|  |  |  | **Salary Expense** |  |  **52,000**  |
|  |  |  | **Supply Expense** |  |  **1,200**  |
|  |  |  | **Advertising Expense** |  |  **300**  |
|  |  |  | **Depreciation Expense: Equipment** |  |  **1,000**  |
|  |  |  | **Income Taxes Expense** |  |  **11,600**  |
|  |  | **To close all expense accounts.** |  |  |
|  |  |  |  |  |  |
|  |  |  **(3)**  |  |  |
|  |  **31**  | **Income Summary** |  **29,900**  |  |
|  |  |  | **Retained Earnings** |  |  **29,900**  |
|  |  | **To transfer profit earned in 2009 to the**  |  |  |
|  |  | **Retained Earnings account ($96,000-$66,100 =** |  |  |
|  |  |  **$29,900).** |  |  |
|  |  |  |  |  |  |
|  |  |  **(4)**  |  |  |
|  |  **31**  |  **Retained Earnings**  |  **2,000**  |  |
|  |  |  |  **Dividends**  |  |  **2,000**  |
|  |  |  **To transfer dividends declared in 2009 to the**  |  |  |
|  |  |  **Retained Earnings account.**  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |

Q2. For each of the following categories, state concisely a transaction that will have the required effect on the elements of the accounting equation. (10 marks)

1. Increase an asset and increase a liability.
2. Decrease an asset and decrease a liability.
3. Increase one asset and decrease another asset.
4. Increase an asset and increase owner’s equity.
5. Increase one asset, decrease another asset, and increase a liability.

Ans: The basic accounting equation is Assets = Liabilities + \_\_\_\_\_\_\_\_\_\_

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For each of the transactions in items 2 through 13, indicate the two (or more) effects on the accounting equation of the business or company.

The owner invests personal cash in the business.

Assets

Increase Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 3.The owner withdraws cash from the business for personal use.

Assets

Increase

Decrease

No Effect

Liabilites

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 4.The company receives cash from a bank loan.

Assets

Increase

Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 5.The company repays the bank that had lent money to the company.

Assets

Increase

Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 6.The company purchases equipment with its cash.

Assets

Increase

Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 7.The owner contributes his/her personal truck to the business.

Assets

Increase

Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 8.The company purchases a significant amount of supplies on credit.

Assets

Increase

Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

1. 9.The company purchases land by paying half in cash and signing a note payable for the other half.

Assets

Increase

Decrease

No Effect

Liabilities

Increase

Decrease

No Effect

Owner's (or Stockholders') Equity

Increase

Decrease

No Effect

Q3. Briefly explain the difference between financial accounting and management accounting. (5 marks)

Ans: The difference between financial and managerial accounting is that financial accounting is the collection of accounting data to create financial statements, while managerial accounting is the internal processing used to account for business transactions.

The certification for each of these types of accounting is different as well. People who have been trained in financial accounting have a Certified Public Accountant designation, while those with a Certified Management Accountant designation are trained in managerial accounting.

The perception that more training is required for financial accounting might be reflected in the higher pay rates of financial accountants over managerial accountants.

The following categories also show the differences between financial and managerial accounting.

SYSTEMS

Financial accounting only cares about generating a profit and not the overall system of how the company works. Conversely, managerial accounting looks for bottleneck operations and examines various ways to enhance profits by eliminating bottleneck issues.

REPORTING FOCUS

Financial accounting is focused on creating financial statements to be shared internal and external stakeholders and the public. Managerial accounting focuses on operational reporting to be shared within a company.

AGGREGATION

Financial accounting looks at the entire business while managerial accounting reports at a more detailed level. Managerial accounting focuses on detailed reports like profits by product, product line, customer and geographic region.

EFFICIENCY

A business’ profitability and efficiency are reported through financial accounting. Managerial accounting reports on what is causing a problem and how to fix that problem.

TIMING

Financial statements are due at the end of an accounting period, while managerial reports may be issued more frequently, to provide managers with relevant information they can act on immediately.

PROVEN INFORMATION

Considerable precision is needed to prove that financial records are correct. Financial accounting relies on this accurate data for reporting, while managerial accounting frequently deals with estimates opposed to proven facts.

STANDARDS

When managerial accounting is made for internal consumption there is no set of standards to compile that information. On the other hand, financial accounting must follow various accounting standards.

TIME PERIOD

Financial accounting looks to the past to examine financial results that have already been achieved, so it is historically focused. Managerial accounting looks to the future with forecasting.

VALUATION

Financial accounting is concerned with knowing the proper value of a company’s assets and liabilities. Managerial accounting is only concerned with the value these items have on a company’s productivity.

This article will also discuss:

[Does Managerial Accounting Follow GAAP?](https://www.freshbooks.com/hub/accounting/financial-accounting-vs-managerial-accounting#doesmanagerialaccountingfollowgaap)

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Does Managerial Accounting Follow GAAP?

Financial accounting reports are distributed inside and outside of a business and are governed by [GAAP](https://www.accountingfoundation.org/jsp/Foundation/Page/FAFBridgePage%26cid%3D1176164538898) and [IFRS](https://www.ifrs.org/issued-standards/list-of-standards/). The external publication of financial statement makes it very necessary to follow regulation to provide correct information.

Managerial accounting reports are shared internally only and are, therefore, not subject to such rules and regulations and are not required by laws to follow any accounting standard.