Financial Accounting

Final Paper

Submitted to : Sir Naveed Azeem

Submitted by : Sharjeel Shah

Roll # 16682

MBA-72

Q#4

Cost = 145000

Salvage Value = 25000

Useful life = 5 years

Useful working hours = 20,000

(a) Straight line for 2017

Cost - Salvage value = Depreciation Expense

145000 - 25000 = 120000

Depreciation Expense ÷ Useful life in years = Depreciation Expense per year

120000 ÷ 5 = 24000

Depreciation Expense for 2017

= 24000 × 3/12 = 6000 Ans

(b) Units of activity for 2017

Depreciation Expense ÷ Total useful working hours = Depreciation Expense per hour

120000 ÷ 20000 = 6 per hour

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For 2017, 3400 hours were used

6 X 3400 = 20,400 Ans

(ii) Declining balance using double straight line for 2017 and 2018

Straight line rate = $\frac{100\%}{5}$ = 20%

For 2017

Cost X Straight line rate X 2 = Depreciation Expense

145000 X 40% = 58000

58000 X 3/12 = 14500 Ans for 2017

For 2018

145000 - 14500 = 130,500

130,500 X 40% = 52,200 Ans for 2018

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Q #3

Henning Company General Journal			
Date	A/c Title & Explanation	Debit	Credit
1/2/17	Patent	840000	
	Cash		840000
	(To record Purchase of Patent)		
4/1/17	Goodwill	450000	
	Cash		450000
	(To record purchase of goodwill)		
7/1/17	Franchise	330000	
	Cash		330000
	(To record Purchase of franchise)		
9/1/17	Research and Development Expense	210000	
	Cash		210000
	(To record Research and Development Expense)		

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Adjusting Entries

Date	A/c Title & Explanation	Debit	Credit
Dec 31, 2017	Patent Ammortalization Expense (840,000 x 1/7)	120000	
	Accumulated Ammortalization		120000
	(To record Ammortalization Expense on Patent)		
Dec 31, 2017	Franchise Fees (33000 x 1/10 x 6/12)	16500	
	Prepaid Franchise		16500
	(To record franchise fees for six months)		

harjeel Shah
16682

Q#2

The concept of partnership is when two or more individuals come together for ~~tat~~ undertaking a lawful business and have agreed to share the profits and losses arising from it according to their shares. The management and operation of the business should be performed either by all the partners or any of them acting on behalf of all the partners. The partnership is the relation which subsits between individuals, who have decided to pool their money, skills and resources in business, to share profits and losses in an agreed ratio. The members of a partnership are jointly known as the partnership firm and severally known as partners. There are different properties of partnership which are as follows

1. Membership

At least 2 members are required to begin a partnership with maximum limit upto 100. Further, all the members entering into the partnership should be legally competent.

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2. Unlimited Liability

The members of a partnership have unlimited liability i.e they are collectively and individually liable for the firm's debs and obligation. So, if in case business assets are not adequate to repay liabilities, personal assets of all or any partner can be claimed by creditors to realise the outstanding amount.

3. Sharing of Profit and loss

The main purpose of the partnership is to share profit in the agreed ratio. However, in the absence of any agreement between partners, the business profits or losses are divided equally among the partners.

4. Continuity

There is lack of continuity in partnership. Like death, bankruptcy, retirement or insanity of any partner can lead the partnership to end. ~~Althoug~~ Although, if the remaining partners want to continue operations, they can do so by a fresh agreement.

5 Contractual Relationship

The relation subsisting between partners is due to the contract which may be oral, written or implied.

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6. Transfer of Interest

Mutual consent of all the partners is must for transferring the interest in the firm to any external party. In a partnership, the decision making is done with the mutual consent of all the partners. They share among themselves the decision making and control of the regular business operation.

7. Admitting new partners

Partner can be admitted into a partnership by either purchasing an interest of the firm from a current partner or contributing assets to the business. when a partner purchases an interest in the business, only the capital accounts change. when a new partner contributes assets to a business, both assets and owner's equity increases. when a new partner contributes assets, current partners should assign a fair market value to the asset

8. Liquidating a Partnership

when a partnership liquidates, the following occurs:

1) Assests are sold
2) Creditors are paid
3) Cash is distributed to partners

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From the sale of assets, gains ~~and~~ or losses are recorded to gain and loss on realization account. The net gain or loss represents a change in equity, and is divided among partners according to the income sharing agreement.

9. <u>Financial Statements for Partnerships</u>

Partnerships must provide information on how net income was distributed among partners. This information can be combined with the balance sheet or the income statement. If desired, it can also be reported separately. The changes of a partner's equity can be found in the statement of owner's equity, which reflects any investment withdrawl or income distribution. The ending capital balance represents the owner's equity at the end of an accounting period.

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Q #1

Financial statement analysis is the process of analyzing a company's ~~fiacial~~ financial statements for decision making purposes. External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value. It can also be used internally as a monitoring tool for managing the finances. The financial statements of a company record important financial data on every aspect of a business activities. As such they can be evaluated on the basis of past, current and projected performance. It requires a company to create and maintain three main financial statements: the balance sheet, the income statement and the cash flow statement. There are generally three tools used for financial analysis

1) Horizontal Analysis
2) Vertical Analysis
3) Ratio Analysis.

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Horizontal Analysis

The horizontal analysis presents the same company's financial statements for one or two successive periods in side by side columns. This analysis display percentage changes in the statement items or totals across given periods. Horizontal analysis detets changes in a company's performance and highlights various other trends. Trend percentages are useful for comparing financial statements over several years, because they reveal changes and trends occuring over time

Change since base period: $\frac{\text{Current year amount} - \text{base year amount}}{\text{Base year amount}}$

Vertical Analysis

The vertical analysis is used on a single financial statement such as income statement. In a vertical analysis, each item is expressed as a percentage of the significant total. This type of analysis is especially helpful in analysing income statement data.

Ratio Analysis

Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues

Sharjeel Shah
16682

with an entity, such as its liquidity, efficiency of operations and profitibility. Ratio analysis constitutes of

- Liquidity Ratios
- Profitibility Ratios
- Solvency Ratios

Liquidity Analysis

The liquidity of a firm is measured by the ability to satisfy short term obligation as they come due. These ratios are viewed as good leading indicators of cash flow statements.

~~Form~~ It consists of

1) Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

It measures the financial strength of a company

2) Quick (Acid Test Ratio)

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

The quick ratio provides better measurement of overall liquidity only when firm's inventory cannot be easily converted into cash

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Activity Ratios

Activity Ratios measures the speed with which various accounts are converted into sales or cash. It consitutes of the following

1) **Inventory Turnover**

It commonly measures the activity of firm's inventory.

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Inventory}}$$

2) **Average Collection Period**

The average collection period is useful in evaluating credit and collection period.

$$\text{Average Collection period} = \frac{\text{Account Recievable}}{\text{Average sales perday}}$$

$$= \frac{\text{Account Recievable}}{\frac{\text{Annual sales}}{365}}$$

3) **Average Payment period**

The average payment period is calculated as

$$\text{Average Payment Period} = \frac{\text{Account Payable}}{\text{Average purchase per day}}$$

$$= \frac{\text{Account Payable}}{\text{Annual Purchase}/365}$$

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The average collection period reveals insights about company's cash flow and credit worthiness.

4. Total Asset Turnover

It indicates the efficiency with which the firm uses its assets to generate sales. Total asset turnover is calculated as

$$\text{Total asset turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

The Highter asset turover indicates the efficient usage of it's assets and sales generation.