**SUBJECT # PRINCIPLES OF ACCOUNTING**

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**PROGRAMME # BBA**

**SEMISTER # 2 ND**

**QUESTION # 1**

Differentiate between current assets and fixed assets with examples?

**ANSWER**

|  |  |  |
| --- | --- | --- |
|  | **CURRENT ASSETS** | **FIXED ASSESTS** |
| **DEFINATION**  | Current assets are those which can be converted to cash easily and can be consumed or sold with one year in the normal course of business. | Fixed assets are those which are purchased for long term useAnd cannot converted to cash easily and being used for purpose of producing goods not held for sale in normal course of business. |
| **VALUATION** | Cost or market value whichever is lower  | Cost less depreciation  |
| **FINANCING**  | Short term funds are used for financing current assets  | Long term funds are used for financing fixed assets  |
| **CHARGE**  | Creation of floating charge  | Creation of fixed charge  |
| **SALES OF ASSETS**  | Will result in revenue profit or loss  | Will result in capital profit or loss. |
| **REAVLUATION RESEVE** | Not created at all | Created when the value is appreciated  |
| **EXAMPLES**  | Stock, account receivable, investments.  | Land, building, furniture and fixtures.  |

 **QUESTION # 2**

Suppose you are a bank manager and company is requesting for lone. So on what grounds will you take your final decision to approve or deny its request?

**ANSWER**

**Giving a loan**

My final decision for giving a loan that first I will learn about their business plan and all of their financial details their complete detail on accounts receivable that includes aging, account-by-account information, and sales and payment history and their complete details on accounts payable their insurance information and last thing I will check that for what purpose is the company taking loan then I will feel comfort for giving the loan.

**Not giving a loan**

For not giving a loan bank will bank will check the company financial statement if it is not earning good amount of money and also check their past loan return copies that if they take loan before and haven’t return on time and the company is in loss so I will reject their loan request .

**QUESTION # 3**

You are the owner of business named “ butter milk” the balance sheet items are as follows at the close of business on February 30, 2020 ?

**ANSWER**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets**  | **$** |  | **Liabilities and Owners Equity**  |  |
| **Accounts receivable**  | **1250** |  | **Capital** | **54,090** |
| **Land**  | **55,000** |  | **Notes payable**  | **70,000** |
| **Cash** | **7400** |  | **Accounts payable**  | **8,000** |
| **Furniture & Fixtures** | **20,000** |  |  |  |
| **Supplies**  | **3,440** |  |  |  |
| **Building**  | **45,000** |  |  |  |
| **Total**  | **132,090** |  | **Total** | **132,090** |

**Question # 4**

What is the difference between cash flow statement and income statement?

**ANSWER**

**CASH FLOW STATEMENT**

It shows ho changes in balance sheet accounts and income effect cash and cash equivalents and break the analysis down to operating investing and financing activities. **Example** Cash flow from operating activities.

**Two formats for operating activities**

**Indirect method**

Indirect method reconciles from net income to net cash provided by operating activities.

**Direct method**

Direct method reports all cash receipts and cash payment from operating activities.

**INCOME STATEMENT**

An income statement is one of the financial of a company and shows the company revenues and expenses during a particular period. It provides investors and creditors with information that helps them predict the amount timing and uncertainty of future cash flows.  **Example**

**Revenues**

 Merchandise sales 24,800

Music lesson Income 3,000

Total revenue 27,800

**Expenses**

Good sold 10,200

Depreciation expense 2,000

Rent expense 500

Total expense 12,700

**QUESTION # 5**

What are debit and credit rules?

**ANSWER**

**Debit rules**

A debit is an accounting entry that either increases an assets or decreases a liability accounts it is positioned on the left in an accounting entry. **For Example** if a business buys a car that is an increase in business assets in the form of debit to the vehicle account if the business bought the car with an automobile loan and makes a payment on the loan the payment is decrease to the liability account notes payable.

**Credit rules**

A credit is an accounting entry that increases either a liability account or decrease an assets account it is positioned on the right in an accounting entry. **For Example** the liability account notes payable would be increased by the amount of the car loan if the business used cash to make the vehicle loan payment the assets account cash is decreased.

**QUESTION # 6**

How many peoples use financial data and for what purpose? Explain with examples.

**ANSWER**

There are two types of people uses financial data

1. External users
2. Internal user

**External users**

They are the users who are not directly involved in the running of an organization and have limited access to an accounting information depends on reliable relevant and comparable accounting information to make important decision.

**Creditors**

To assess whether the business can pay for its goods on credit or repay its loans

**Government agencies**

To calculate the amount of taxes to be paid

**Customers**

To assess the staying power of potential suppliers and customers.

**Financial institution**

Banks and financial institutions that provide the loan to a business are interested to know credit worthiness of that business.

**Internal Users**

They are the users who are directly involved in the planning organizing and running the business and use the information to help improve the performance and profitability of the organization.

**Owners**

The owner provide fund or capital whether the business is being conducted on sound lines or not and whether the capital is being employed or not

**Management**

Need to know what, when and how to purchase need information about employees’ payroll benefits performance and compensation

**Employees**

Need to get better wages and working conditions and depend on information expect regular income growth and to know the result of business.