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**Module : Principal Of Accounting**

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**Section : B**

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Q1 : Differentiate between current assete and fixed assets, in your own words with examples ?

# ANSWER: CURRENT ASSETS

#  A Current assets is a resource expected to be used to benefit a company within a year or the current account period . Hence, this resources are shot-term in nature and will be sold, collected, or used up in a 12 month period. Current assets also called a short term assets.

## Example

1. Cash
2. Account receivable
3. Inventry

## Fixed Assets

 Fixed assets is an assets held with the intention of being used for the purpose of producing or providing goods or services and is not held for saled in the normal course of business. It is also called Non cureent assets.

**Example**

1. Land
2. Furnitures
3. Building

Q.2 Suppose you are a bank manager and a company is requesting for lone, so on what grounds, will you take your final decision to approve or deny its request ?

**Answer**

**1= Company performance report (CPR) :**

 First we look company performance how the company is going on and how the company operations is going on. If the company performance report (CPR) is good then it will be elegible for loan and if CPR report is not well then we will denied the loan request.

 **2=Creditors report:**

 In second we look the creditors or Iendors report . if the company creditors are happy and company pay their liabilities on time then the company is elegible for loan and if the report is not good it will be not elegible.

 **3=Product quality;**

 In this step we look company products what products the company makes and what quality? Is this legal or illegal? If the company makes legal and good quality product then we will take positive decision.

 Q3: You are an owner of a business named “Butter Milk” the balance sheet items are as follows, at the close of business on February 30, 2020 (5 Marks)

|  |  |
| --- | --- |
| Accounts Payable. | ? |
| Accounts Receivable. | $1,250 |
| Land. | $55,000 |
| Notes Payable | $70,000 |
| Cash | $7,400 |
| Furniture and Fixture | $20,000 |
| supplies | $3,440 |
| Building | $45,000 |
| Your, Capital | $54,090 |

Make a proper balance sheet from above table and find amount of Accounts Payable?

Answer

|  |
| --- |
|  Butter Milk Balance Sheet Close Date February 30, 2020 |

 ASSETS

 Cash………………………………………………..$7,400

 Account Receivable…………………………$1,250

 Supplies…………………………………………..$3,440

 Land………………………………………………$55,000

 Building…………………………………………$45,000

 Furniture and Fixture……………………..$20,000

 Total Assets……………………………………$132,090

 LIABILITIES

 To find accounts payable (total assets – owner equity – notes payable) 132,090 – 54,090 – 70,000 = 8000

 Accounts Payable……………………………$8,000

 Notes Payable………………………………..$70,000

 Total Liabilities……………………………….$78,000

 OWNER EQUITY

 Capital……………………………………………$54,090

 Liabilities + owner equity 78,000 + 54,090 = $132,090

Q4: what is difference between Cash Flow statement and Income statement ? explain in your own words with examples.

**Answer : Cash Flow Statement**

 A cash flow statement shows the incomings and outgoings of your businesses cash within a giving time period.

 **Example**

 Financing: cash used for borrowing or lending.

 Operations: Cash used during daily operations.

 Investing: Cash used to purchase equipment or other assets.

 **Income Statement**

 An income statement is one of the finanacial statement of a company in which we recorded revenues and expenses of a company during a particular period.

 **Example**

 Revenue: Money a company actually receives during a specific period.

 Expense: the economic costs a business incurs in order to earn revenue.

Q5: what are debit and credit rules ? explain in your own words

**Answer**

 In financial accounting debit and credit are simply the left and right side of a T-Account respectively. However the debit is on left side and credit is on right side in accounting. They are used to indicate the increase or decrease in certain accounts. That account according to the following rules.

 **Debit and Credit Rules**

* Assets and expenses

An increase is recorded as debit (left side)

A decrease is recorded as credit (right side)

* Liabilities, equities and revenues

A decrease is recorded as debit (left side)

An increase is recorded as credit (right side)

 Q6: How many types of people use financial data and for what purposes ? explain their types with examples

**Answer:**

 **Internal users:**

 Internal users includes

 - Managers

 - Directors

 - Company accountants and management

 They are used financial information for decision making and for controlling and planning daily activities. Owners are also used financial information for looking company performance.

For example: shaping decision about investment, accessing how the company used resources

**2=external users**:

**Creditors and lenders**:

 Should a loan be granted to the company ? will the company be able to pay its debts as they become due?

 **Government agencies:**

 Like tax authorities using for calculating tax . local public unity using for the charging fair rate .

 **-general public:**

 Is the company provide useful products and gainful employement to citizens .