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Subject : Introduction to Financial Accounting

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Topic : Final Assignment

Chapter 20: 10

Capital Asset

are long lived in operation in business.

Types
Tangible: Physical substance. (Land)
Intangible: without physical substance (patent)

AMORTIZATION

is allocating to expense the cost of capital asset over its useful life.

Methods of AMORTIZATION

- 1) Straight line $\frac{\text{Cost} - \text{Residual value} - \text{Cost}}{\text{Amort}} \frac{\text{Amort}}{\text{Amort}}$
- 2) Units of Activity (book value \times straight line rate $- A \cdot \text{cost}$)
- 3) Declining-balance.

Asset Turnover Ratio (Net Sales \div Average Total Asset = AT)

Return on Assets (Net Income \div $\frac{\text{Average}}{\text{Total Asset}} = \text{R.O.A.}$)

Chapter: 11

(Current Liabilities)

Types of Current Liabilities

- 1) Definitely determinable
- 2) Estimated
- 3) Contingent.

Accounting for Current Liabilities

- 1) Operating line of credit
before authorized demand loan.

- 2) Notes payable and Accounts

It's bill in the form of promissory notes that requires the borrower to pay interest.

- 3) Tax payable The same amount of sales which they pay to government.

- 4) Payroll Salaries of employees.

- 5) Unearned Revenues

Cash which are taken before service.

Chapter no: 12

Accounting principles

1) Cost Principle

Assets are recorded at their historical cost. Cost is used because it is both relevant and reliable.

2) Matching Principle

It's referred to as the matching principle → Indicates that expense be matched with revenues in the period in which they are incurred.

3) Revenue Recognition principle

Revenue should be recognized in the Accounting period, in which it is earned.

4) Going Concern Assumption

The enterprise will continue to operate in the foreseeable future.

Chapter no: 13

Accounting for Partnership

Points Characteristics

- 1) Association of individuals
- 2) Mutual Agency
- 3) Limited life
- 4) Unlimited liability.

Types

- 1) General partnership
- 2) Limited partnership
- 3) LLC
- 4) Limited liability partnership.

Advos

- 1) Easy formation
- 2) Work load sharing
- 3) Better decision taking
- 4) Can add more partners
- 5) Power of profit

Cons

- Share is divided
- Profit is divided
- limited access
- Decision process is slower

Chapter no. 18

Cash Flow Statement

Objectives / Classification

- 1) Operating Activities (related operations)
- 2) Investing Activities (related long investment)
- 3) Financial Activities (related money borrowing)

Model

Company Name

Operating Activities

Add

Deduct

A. R

Inventory

Prepaid expense

Current Asset

↑

↑

↑

↑

A. P

Expense payable

Liabilities

↓

↓

↓

Cash Current Asset Coverage

Cost

provided by

operating activities

÷ Average

Current

Liabilities

= Cash Return on

Sales

Chapter no: 19

Accounting Principles

Basics And Characteristics of financial statement Analysis

- 1) liquidity
- 2) profitability
- 3) solvency

Acid Test Ratio

$$= \frac{\text{Cash} + \text{Temporary investment} + \text{net receivables}}{\text{current liabilities}}$$

Receivable Turnover

$$= \frac{\text{net credit sales}}{\text{Average net receivables}}$$

Collection Period

$$= \frac{365 \text{ days}}{\text{Receivable Turnover}}$$

Inventory Turnover

$$= \frac{\text{cost of good sold}}{\text{Average Inventory}}$$