PAPER PRINCIPLE OF ACCOUNTING

ID 15821

SEC B

Q1 CURRENT ASSET:

 Current assets are short-term assets that are typically used up in less than one year. Current assets are used in the day –to – day operations of the business to keep it running.

For example:

 Cash, account receivable, short term investment, prepaid expanses

 FIXED ASSET:

 Fixed asset are long term, which have a useful life of more than one year,

For example:

 Plant, equipment, land, building, furniture etc.

Q2 Suppose I am a bank manager and company is requesting for loan I will make my final decision to approve their request on the following factors

1. Credit history;

 Bank always prefer people with clean financial habits, a credit score tell a lot about your financial health.

(2)

 Occupation:

 There is some occupation that bank prefer, for example in many government banks, government and PSU employees are most preferred as they have a stable job,

(3) AGE:

 Age is another criterion that banks look at before giving a loan. To give you an idea, people in the age group of 30-50 years are most preferred as they are considered more financially stable.

(4) DISTANCE:

 Bank also considered the distance of the property from the financing branch while sanctioning a loan.

(5) SPOUSE INCOME SOURCE:

 IF you and your spouse both are working together income will be considered to determine your repayment.

(6) REPAYMENT PERIOD:

 The shorter the repayment period the more your bank likes and will approve you for loan.

(7) RELATIONSHIP WITH THE BANK:

 The older your relationship with the bank, the higher are your chances of getting the loan approved,

Being as bank manager reject the approval of the company for loan are some reason of rejections.

 The most common reasons for being denied

Credit are: bad (or no) credit lenders look at your credit borrowing history, usually in the form of your credit scores when you apply for loan

Not enough income: lenders want to see that you are able to make the minimum monthly payment before they approve your loan.

Q3

 “BUTTER MILK”

 BALANCE SHEET

 30 FEB 2020

 LIABILATIES

ASSETS

 NOTES PAYABLE 70000

CASH 7400

ACCOUNT RECEIVABLE 1250 ACCOUNT PAYABLE 8000 8000

SUPPLIES 3440

LAND 55000 TOTAL 78000

BUILDING 45000 OWNER’S EQUITY

FURNITURE 20000

 CAPITAL 54090

TOTAL 132090 TOTAL 132090

ASSETS= LIABILITIES + OWNER’S EQUITY

132090= 70000+ 54090

132090= 124090

132090-124090 =8000

ACCOUNT PAYABLE= 8000

Q4 INCOME STATEMENT:

 The income statement is the separate representation of the company’s revenue and expense transaction for the year.it is particularly important for the owner’s, creditors, and other interested parties to understand the income statement.

 Revenues are increase in company assets from its profit-directed activities and they result in positive cash flow,

Expenses are decrease the company assets from its profit – directed activities they result in negative cash flow.

 Net income is the difference between income statement and cash flow.

EXAMPLE: SALES REVENUES 2200

 OPERATING EXPENSES

 WAGES 1200

 UTILITIES 200 =1400

 NET INCOME = REVENUES- EXPANSE

 2200-1400

 NET INCOME 800

CASH FLOW STATEMENT:

 Cash flow of the company are an important consideration in investors and creditors assessments of cash flow to them. As a result, second set of information that is particularly important concerning how the financial position changed between two points in the time (that is the beginning and end of month or year) is cash flow statement.

Three categories of cash flow statement

1. OPERATING ACTIVITIES:

 Operating activities are the cash effects of revenues and expanse transaction that are Included in the income statement.

1. INVESTING ACTIVITIES:

 Investing activities are the cash effects of purchasing and selling assets.

1. FINANCING ACTIVITIES:

 Financing activities are the cash effects of the owner investing in the company and creditors loaning money to the company and the repayment of either or both.

EXAMPLE:

1. CASH FLOW FROM OPERATING ACTIVITIES:

Cash received from revenues transactions 2200

Cash paid for expanses (1400)

Net cash 800

1. CASH FLOW FROM INVESTING ACTIVITIES:

Purchase of land (52000)

Purchase of building (6000)

Payment for the purchase of tool (6800)

Collection for sale of tools 600

Net cash used by activities (64200)

(3)CASH FLOW FROM FINANCING ACTIVITIES:

Investment by owner 80000

Increase in cash for the month 16600

Cash balance nov 1,2001 0

Cash balance nov30, 2001 16600

Q5 DEBIT AND CREDIT RULES:

 An amount recorded on the left, or debit side of an account is called debit or a debit antry.

An amount entered on the right or credit side is called credit or a credit entry.

In sample debit refer to the left side of an account and credit refer to the right side of an account.

CONCISE STATEMENT OF DEBIT AND CREDIT RULES:

 The use of debit and credit record changes in assets liabilities and owner’s equity may be summarized as follows.

ASSETS ACOUNT:

 Normally debit balance, thus increase is recorded by debit and decrease are recorded by credit,

LIABITLITIES +ONWER’S EQUITY:

 Normally have credit balance, increase is recorded by credit and decrease are recorded by debits.

Q6 THERE are many users of the financial data produced by an organization. The following list identifies the more common users and the reasons why they need this data.

1. COMPANY MANAGEMENT:

 The management team needs to understand the profitability, liquidity, and cash flows of the organization every month. So that it can make operational and financing decisions about the business.

1. COMPETITORS:

 Entities competing against a business will attempt to gain access to its financial statement, in order to evaluate its financial condition. the knowledge they gain could alter their competitive strategies.

(3) CUSTOMER:

 When a customer is considering which supplies to select for a major contract, it wants to review their financial statement first, in order to judge the financial ability of a supplier to remain in business long enough to provide the goods or services maintained in the contract.

(4) EMPLYOEES:

 A company may elect to provide its financial statements to employees, along with a detailed explanation of what the documents contain. This can be used to increase the level of employee involvement in understanding of the business.

(5) SUPPLIER:

 Supplier will require financial statement in order to decide whether it is safe to extend credit to a company.

(6) INVESTORS:

 Investors will likely require financial statement to be provided, since they are the owner of the business and want to understand the performance of their investment.