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16965

Paper

Accounting

Submitted to

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Q2. (1) What is Financial Statement analysis? What are different tools?

Ans: Financial statements

The Financial statements are used by investor market analysts and creditor to evaluate a company's financial health and earning potential.

Tools of Financial Statement analysis

(2) Comparative statements

Comparative statements deal with comparison of different items of profit and loss account and Balance sheet of two or more periods. Separate comparative statements are prepared for profit and loss account as comparative income statement and Balance sheet.

## ② Comparative Income Statement

Three important information are obtained from the comparative income statement

They are Gross profit, operating profit and net profit. The change in the improvement is a profitability

of Business concern is fine out over or improvement is not satisfactory, the management can find out the reason for it and some corrective action can be taken

## ③ Comparative Balance Sheet

The financial condition of the business concern can be fine out by preparing comparative balance sheet. The various items of balance sheet for two different periods are used. The assets are classified as current assets and fixed assets for comparison.

## ④ ③ Common size statements

A vertical presentation of financial statements or information is followed for preparing Common size statements. Besides the base value of financial statement contents are not taken into consideration. But only percentage common size statement.

## ⑤ Trend Analysis

The ratios of different items for various periods are found out and then compared under this analysis. The analysis of the ratios over a period of given years gives an idea of whether the business concern is trending upward and downward.

## ⑥ Average analysis

The trend ratios are calculated for a business concern such ratios are compared with industry average. These both trends can be presented on the graph paper also type of ~~6~~ curves

(4)

## (7) Statement of Changes in Working Capital

The extent of increase or decrease of Working Capital is identified by preparing the statement of changes in Working Capital. The amount net Working Capital is calculated by subtracting the sum of current liabilities from the sum of current assets.

## (8) Fund Flow Analysis

Fund Flow analysis deals with detailed sources and application of funds of the business concern for specific period.

## (9) Cash Flow Analysis

Cash Flow analysis is based on the movement of cash and is based on the movement of cash and other words. The movement of cash instead of be considered in the cash flow analysis two types of cash flow would and notion of cash flow.

(5)  
(10) Ratio Analysis

Ratio analysis is an attempt of developing meaningful relationship b/w individual items (or group items) to Balance Sheet or Profit and Loss account. Ratio analysis is not only useful to internal parties of Business, concern but also useful to external parties.

(ii) Cost Volume Profit Analysis

The analysis discloses the prevailing relationship among sales, cost and profit. The cost is divided into two. They are fixed cost and variable cost.

(iii) Liquidity Analysis

The ability of an organization to pay its bills in a timely manner. There are several liquidity analysis to assess the ability of the business entity to convert asset in cash. Some and financial institution to assess a business entity ability.

## ⑥ Activity Analysis

Activity analysis determine what activities are executed. How many people perform the activities. How much time spent on them. How much are which resources are consumed. What performance data best reflects the is accomplished through direct observation. The analysis is accomplished through direct observation, interviews, questionnaires etc.

Q2 Explain the concept of partnership with its different properties

Ans: A legal form of business operation between two or more individuals who share managements and profit. The federal government recognizes several types of partnership. In general partnership the partner manage the company and assume responsibility for the partnership debts and other obligations.

Three types of partnership:

## ① General partnership

In general partnership each partner share equally in the work load, liability and profit generated and paid out to the partners. All partners are actively involved in the business.

## ② Limited partnership

Limited partnership allow outside investor to buy into a business but maintain limited liability and involvement based on their contribution.

## ③ Joint Ventures

Short-term projects or alliances that bring together multiple partners for a project are typically structured as joint ventures.



⑧ (4) Straight line method

(a) Cost = 145,000/-

Storage value \$25,000

Useful life = 5 years

$$\text{Depreciation Expense} = \frac{\text{Cost} - \text{Storage value}}{\text{Useful life}}$$

$$= \frac{145000 - 25000}{5}$$

$$= 24000/-$$

2017 Depreciation = \$ 24000  $\times \frac{3}{12}$

$$= \$ 6000$$

(b) Unit of Activity method

$$\text{Dep per unit} = \frac{\text{Cost} - \text{Storage value}}{\text{Total estimated production}}$$

$$= \frac{145000 - 25000}{20000}$$

$$= (6)$$

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$$\begin{aligned} 2017 \text{ Depreciation} &= 34000 \times 6 \\ &= 204000 \end{aligned}$$

(c) Declining Balance method

Straight line depreciation rate =  $\frac{1}{\text{use life}}$

$$= 0.20 = 20\%$$

$$\begin{aligned} \text{Double depreciation rate} &= 0.2 \times 2 \\ &= 0.4 \\ &= 40\% \end{aligned}$$

2017 Depreciation:

$$\begin{aligned} &= 145,000 \times \frac{3}{12} \times 40\% \\ &= 14,500 \end{aligned}$$

Book value Jan 1, 2018 = Cost - Acc Dep

$$\begin{aligned} &= 145,000 - 14,500 \\ &= 130,500 \end{aligned}$$

2018 Depreciation:

$$\begin{aligned} &= 130,500 \times 40\% \\ &= ~~52,200~~ \cdot 52,200 \end{aligned}$$

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Q3K

# Jomal Enterprises

Date	Ac Title	Dr	Cr
2 Jan 2017	Patent Cash To record purchase of patent	840,000/-	840,000/-
1 Apr	Good will Cash To record purchase of good will	450,000/-	450,000/-
1 July	Proprietary Franchise Cash To record the purchase of Franchise	330,000/-	330,000/-
1 Sep	Research & development Cash To record R&D expenditure	210,000/-	210,000/-

(11)

# Adjusting Entries as of Dec 31 2017

Date	Account	Dr	Cr
Dec 31, 2017	$840,000 \times \frac{1}{2} = 120,000$ Patent Amortization Expense Patent To record amortization expense on patent	120,000	120,000
Dec 31 2017	No Entry Goodwill is not amortized - Goodwill test for impairment only		
Dec 31	$330,000 \times \frac{1}{10} \times \frac{6}{12} = 16,500$ Franchise fees <del>Prepaid fees</del> Prepaid fees To record franchise fees for six months July - Dec 2017	16,500	16,500
Dec 31	No entry DeD cost is not amortized The cost is expensed immediately		