Question no 1:-

Financial Statement Analysis:-

* **Financial Statement** represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance & liquidity of a company. financial statements reflect the financial effects of business transactions and events on the entity.

Types of Financial Statement:-

① Balance Sheet:- A balance sheet gives an overall picture of a company's financial situation by showing the total assets of a business.

② Income statement:- Income statement shows that the net income of the business after paying out expenses

Roll Number :- 16091.

Subject :- Financial Accounting.

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Exam :- Final

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which can include product acquisition, wages, advertising, taxes and capital Asset losses.

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④ <u>Cash flow statement</u> :- while an income statement and a balance sheet offer a detailed overview of a company's financial track record, most investor need to know how well the company manages cash inflows and outflows.

Financial Statement Analysis :-

Analysing financial statements involves evaluating three characteristics of

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Financial Statement Analysis :-

Analysing financial statements involves evaluating three characterestics of a company.

Its liquidity, profitability, solvency.

Comparative Analysis:-

* Intracompany basis
* Intercompany basis
* Industry averages

Three tools:-

* Horizontal Analysis:-

Express each item on horizontal way.

$$\boxed{\text{change since base period}} = \boxed{\frac{\text{current year amount} - \text{Base year amount}}{\text{Base year amount}}}$$

* Vertical Analysis:-

vertical analysis express each item in a financial statement as a percent of a base amount (total assets or net sales)

* Ratio Analysis:-

Liquidity Ratios:- Measure short-term

ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash.

Profitability Ratios - Measure the income or operating success of an enterprise for a given period of time.

Solvency Ratios - Measure the ability of the enterprise to survive over a long period of time.

* Benchmarking :- Benchmarking is the process of comparing the actuals with the targets set out by the top management. Benchmarking also refers to the comparison made with the best practices and strive to achieve the same keeping the same as the target.

Liquidity Ratios:-

- current ratio,
- Acid test ratio
- Cash current debt coverage ratio
- Receivables turnover
- collection period
- Inventory period or turnover
- Days sales in inventory

Liquidity Ratios:-

Liquidity ratios analyze the ability of a company to pay off both its current liabilities as they become due, as well as their long term liabilities as they become current. these ratios show the cash levels of a company and the ability to turn other assets into cash to pay off liabilities and other current obligations.

Quick Ratio:- The quick ratio or acid test is a liquidity ratio that measures the liability of a company to pay its current liabilities when they come due with the only quick assets.

Formula:-

$$QR = \frac{\text{cash} + \text{cash equip} + \text{Short term invest} + \text{Current ratio}}{\text{current liab}}$$

Current Ratio:- is a liquidity & efficiency ratio that measure a firm's ability to pay off its short-term liabilities with its current assets.

Formula:-

$$\text{current ratio} = \frac{\text{current Assets}}{\text{current liab}}$$

Working Capital Ratio:- also called current ratio, this measures a firm's ability to pay off its current liabilities. with current assets.

Formula:-

$$\text{working capital Ratio} = \frac{\text{current Assets}}{\text{current liab.}}$$

Activity Ratios:- ratios help in evaluating a business's operating effeciency by analyzing fixed assets, inventories and accounts receivables.

Inventory Turnover Ratio:-

For business that holds inventory this activity ratio formula shows how many times the inventory has been ~~occur~~ sold out completely in one accounting period.

Formula:-

$$\text{Inventory turnover ratio} = \frac{\text{COGS}}{\text{Average Cost of In.}}$$

Total Assets Turnover Ratios:-

current assets.

Formula:-

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Total Assets Turnover Ratios:-

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Total assets Turnover ratio calculates the net sales in comparison with its total assets

Formula:-

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Average Total Assets}}$$

Question no 2.

Concept Of Partnership:-

When two or more individuals engage in enterprises as co-owners, the organization is known as a partnership. This form of organization is popular among personal service enterprises, as well as in the legal and public accounting professions.

The Important Features:-

① Accounting for Initial Investments.

* Investment of Cash
* Investment of Assets other than Cash

② Capital Interest

③ Capital Account

④ Compensation for services and capital

⑤ Guaranteed payments

⑥ Allocation of net income

* Profits and losses

8) Closing process.
9) Statements for partnerships
10) Admitting a new partner.
10) Allocation of ownership interest.
11) Partnership bonus.
12) Withdrawal of partner
13) Purchasing of partnership's interest
14) Death of a partner
15) Liquidation of a partner
16) References.

Characteristics :-

Association of two or more partners:-

Partnership is formed by the association of two or more persons. However, the maximum number of partners cannot exceed ten in case banking business and twenty in case of other business otherwise it will be illegal.

Contractual Relationship:-

Partnership arises from contract as the partners enter into agreement to carry on a at the partnership must have the motive to earn profit.

Unlimited liability :-

The liability of the partners is unlimited. This implies that the private properties of the partners are at risk as these can be used to meet the obligations of the firm when the assets of the firm are not sufficient for the purpose. Each partner is jointly and severally liable for the debts and obligations of the business.

Restriction on transfer of Share :-

A partner cannot transfer his share in the business an outsider without the consent of all other partners. When there is transfer of share, a new partnership comes into existence even though the same business is continued.

business. The contract may be oral or written. To become a partner must be of the age of majority and is of sound mind. A minor can-not be a partner but can admitted to the partnership for benefits only with the consent of all the partners

Existence of lawful business:-

Partnership is formed for the purpose of carrying on lawful business only. The term business is very wide and includes every trade, occupation or profession. But when the purpose is to do some charitable work or to share the income of property held in joint owner-ship, it will not constitute partnership.

Sharing Of Profits on agreed Basis:-

Sharing of profits is one of the essen-tial characteristics of partnership. The partners share the profits as per agreement. This implies

Payment from Partner's Personal Assets:-

The withdrawal of a partner when payment is made from partner's personal assets in the direct opposite of admitting a new partner interest, withdrawal by payment from partner's personal assets is a personal transaction between the partners.

Liquidation Of Partnership:-

No capital deficiency.

Capital deficiency

* Partner with deficiency pays partnership
* Partners with credit capital balances absorb deficiency in income sharing proportion.

Bonus to Retiring Partner:-

A bonus may be paid to a retiring partner when:-

* The fair market value of partnership asset is greater than their book value.
* there is unrecorded good will resulting from the partnership's superior earnings record,
* the remaining partners are anxious to remove the partner from the firm.

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Question no 4.

(A) Straight line for 2017.

(B) Units of Activity for 2017.

(C) Declining-balance using double the straight line rate for 2017 & 2018.

A :- Cost = \$145,000

Salvage value = \$25,000

Useful life = 5 years.

$$\text{Depreciation Expense} = \frac{\text{Cost} + \text{Salvage value}}{\text{useful life}}$$

$$= \frac{\$145,000 + \$25,000}{5}$$

= \$24,000 per year

$$\text{2017 Depreciation} = \$24,000 \times \frac{3}{12} \text{ oct - Dec}$$

= \$6000

B) - Depreciation per unit = $\frac{\text{Cost} - \text{Salvage value}}{\text{Total estimated Production unit}}$

$= \frac{145,000 - 25,000}{20,000}$

= \$6 per hour.

2017 Depreciation = 3400 hrs × \$6

= \$20,400.

c) Straight-line depreciation Rate = $\frac{1}{\text{useful life}}$

= 0.20 = 20%

Double Depreciation rate = 0.2 × 2 = 0.4

= 40%

2017 Depreciation :-

$\$145,000 \times \frac{3}{12} \times 40\%$.

= \$14500

Book value Jan 1, 2018 = Cost - Acc Dep

= 145,000 - \$14,500 = \$130,500

2018 Depreciation = $130,500 x 40%

= $ 52,200.

Question no 3.

Date	Acc/Title	DR $	CR $
(1) 2, Jan, 2017	Patent	840,000	
	Cash		840,000
	(To record purchase of patent)		
(2) 1, April 2017	Good will	450,000	
	Cash		450,000
	(To record the purchase of good will)		
(3) 1 July	Prepaid Franchise	330,000	
	Cash		330,000
	(To record the purchase of franchise)		
(4) 1 sep	Research & Development	210,000	
	Cash		210,000
	(To record Research & Devp expenditure)		

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Adjusting Entries Dec 31 2017 :-

Date	Acc/Title	Dr.$	Cr.$
Dec 31 2017	Patent Amortization Exp	12,000	
	Patent		12,000
	(To record amortization expense on patent)		
Dec 31 2017	No Entry		
	(Goodwill is not amortized and Goodwill is tested for impairment each year)		
Dec 31	Franchise Fees [illegible]	16,500	
	Prepaid Franchise		16,500
	(To record Franchise fees for the [illegible] 2017)		
Dec 31	No Entry		
	R&D cost is not amortized.		
	The cost is expensed immediately		

Adjusting Enteries Dec 31, 2017 :-

Date	Acc/Title	DR$	CR$
Dec 31, 2017	Patent Amortization Exp	120,020	
	Patent		120,020
	(To record amortization expense on patent)		
Dec 31, 2017	No Entry		
	Good will is not amortized. Good will is tested for impairment each year)		
Dec 31	Franchise Fees $= 330,000 \times \frac{1}{10} \times \frac{6}{12} =$	16,500	
	Prepaid Franchise		16,500
	(To record Franchise yees for six months July - Dec 2017)		
Dec 31	No Entry		
	R&D cost is not amortized. The cost is expensed imediatly		