**Mid Assignment**

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**Module: PRINCIPAL OF ACCOUNTING**

**Q1: Differentiate between current assets and fixed assets?**

**Ans: FIXED ASSETS:**

 Fixed assets are those assets in which life is more than one year fixed assets are not easily converted into cash and long term funds are used for financing fixed assets.

**Example:**

1. Land
2. Building
3. Machinery

 **CURRENT ASSETS:**

 A current asset is any asset which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business and current asset are readily converted into cash.

**Example:**

1. Cash
2. Bank
3. Trade
4. Receivable

**Q2:** 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 ?

**Ans:**  A bank manager can give loan to the company

According to business plane business financial detail, complete accounts receivable, complete financial statement, personal financial details, insurance information, agreement on future ratios.

 If these above requirements are complete then the manager should approve the company request for loan

 and if anything missing then the manager should deny its request.

CURRENT RATIO AND QUICK RATIO

 Current Ratio= current assets

 Current liabilities

 Quick Ratio= current assets - inventories

 Current liabilities

**Q3: you are an owner of business named “BUTTER MILK” the balance sheet items are as follows, at the**

**Close of business on February 30, 2020**

**Make a proper balance sheet from above table and find amount of accounts payable?**

|  |  |  |  |
| --- | --- | --- | --- |
| **ASSETS**  | **AMOUNT** | **LIABILITIES AND CAPITAL** | **AMOUNT** |
| CASH | 7400 | ACCOUNT PAYABLE | 8000 |
| ACCOUNT | 1250 | NOTES PAYABLE | 70000 |
| SUPPLIES  | 3440 | CAPITAL | 54090 |
|  | 12090 |  |  |
| NON CURRENT ASSETS  |  |  |  |
| FURNITURE | 20000 |  |  |
| BUILDING  | 45000 |  |  |
| LAND  | 55000 |  |  |
| **TOTAL ASSETS**  | 132090 | **TOTAL LIABILITY AND OWNER CAPITAL**  | 132090 |

**Q4: What is different between cash flow statement and income statement? Explain in your own words with example**

**ANSWER:**

**CASHFLOW STATEMENT: -**

 Cash flow statement is a part of complete financial statements.

Cash flow statement provide the information about:

- Cash flows of an entity during reporting period.

- Changes in cash and cash equivalents during financial period.

It also shows whether there was an increase or a decrease in the amount of cash held by the entity between the beginning and the end of period.

**Format of cash flow statement:**

 There are three categories of cash flows activities

1. Cash flows from operating activities

2. Cash flows from investing activities.

3. Cash flows from financial activities.

STATEMENT OF CASH FLOWS

Amounts. Rs

• Cash flow from operating activities x/(x)

• Cash flows from investing activities x/(x)

• Cash flows from financing activities x/(x)

• Net decrease/ increase in cash/cash equivalent x/(x)

• Cash and cash equivalent at the beginning x/(x)

• Cash and cash equivalent at the beginning x/(x)

**INCOME STATEMENT:-**

A financial report showing a company performance over a period of time by subtracting expenses from revenue to obtain net income. Sometimes known as a profit and loss statement or earning report

Example:

**The corporations’ income statement for the last fiscal year shows a 50% increase in sales.**

**Q5: What are debit and credit rules? Explain in your own words.**

**Answer:**

Every financial transaction is recorded in the accounts in accordance with rules of debit and credit

Following are the rules for debit and credit the financial transaction

➢ Every transaction is recorded twice as a debit entry in are account and as a credit in another account

➢ Total debit entries and total credit entries must always be equal

➢ Debit entries are made on left hand side while credit entries are on right hand side

➢ The term debit and credit are shortened to ‘Dr’ and ‘Cr’ respectively

**Example:**

 **ACCOUNT NAME**

**Debit side ‘Dr’**

**Rs**

**Credit side ‘Cr’**

**Rs**

**Debit transaction are entered on this side**

**Amount**

**Q6: How many types of people use financial data and for what purpose? Explain their types with example**

**Answer:**

**USER**

**PURPOSE**

**INVESTOR**

They use the financial data of an entity for the investment decision in the business

Of an entity

**LERDERS**

leader needs the financial information that help then about decision of borrow to

Entity

**SUPPLIERS AND MONEY**

Suppliers provide good on credit to the business and creditor who are owned

**CREDITORS**

by the entity. They can use the financial data to assess how much credit might safely

Allow to the entity

**GOVERNMENT**

The government many interested in the financial information of a business for the

Purpose of business laws and regulation and taxation polices

**EMPLOYESS**

Employees need financial information to know financial stability and profitability.

Profitability may make employers to pay higher wages and job opportunities for

Employees.