***Mid term exam paper***

***Principles Of Accounting***

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**Question 1:**

Q1: Differentiate between current assets and fixed assets, in your own words With examples ? (5 marks)

**Answer:**

Current assets are short term assets that are typically used for short time period less than one year estimated.

Example:

Cash and cash equivalents, which might consist certificate of deposits.

Fixed assets are long term assets that a company purchases and then used for production of goods and services. This includes property etc.

Example: vehicles, buildings.

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 ? (5 marks)

ANS: if I am the bank manager and a company request for loan. Then first of all I will check the the background background that how much company has earn lost in the past few years. I will check that business financial and income statement. If the company is financially strong then I will allow them to take the loan and if they did not pay their loan on time then the bank will seized their property. And if they are not financially strong I will not allow them to take loan.

Q3: You are an owner of a business named “Butter Milk” the balance sheet items are as follows, at the close of business on February 30, 2020 (5 Marks)

|  |  |
| --- | --- |
| Accounts Payable. | ? |
| Accounts Receivable. | $1,250 |
| Land. | $55,000 |
| Notes Payable | $70,000 |
| Cash | $7,400 |
| Furniture and Fixture | $20,000 |
| supplies | $3,440 |
| Building | $45,000 |
| Your, Capital | $54,090 |

Make a proper balance sheet from above table and find amount of Accounts Payable?

ANS: Business named Butter Milk the balance sheet of the business is given below.

BUTTER MILK

|  |  |  |  |
| --- | --- | --- | --- |
| **ASSETS** |  | **LIABILITIES** |  |
|  | $ |  | $ |
| Cash | 7400 | Notes Payable | 70000 |
| Accounts receivables | 1250 | Accounts payable | 8000 |
| Supplies | 3440 |  |  |
| Furniture And Fixture | 20000 |  |  |
| Land | 55000 |  |  |
| Building | 45000 |  |  |
|  |  | **Owners Equity** |  |
|  |  | Thandakoi | 54090 |
|  |  |  |  |
|  |  |  |  |
| Total Assets | $132090 | Total liabilities | $132090 |

Q4: what is difference between Cash Flow statement and Income statement ? explain in your own words with examples. (5 Marks)

ANS: INCOME STATEMENT:

It is also called loss and profit statement.it is the report which shows the expense and resulting profits

Examples:

Revenue, Expenses, Profits

CASH FLOW STATEMENT:

This statement also known as statement of cash flow. It is a financial statement. That shows how changes in balance sheet accounts and income affects cash equivalent and breaks the analysis down operating investing and financial activities

Example:

Operating activities, financial activities, investing activities.

Q5: what are debit and credit rules ? explain in your own words (5 Marks)

ANS:

DEBTS AND CREDITS RULES: in accounting the rules of debit and credits depend on the type of accounts your are talking about.

PERSONAL ACCOUNTS: debit the receiver and credit the giver

REAL ACCOUNTS: debit what comes in and credit what goes out.

NOMINAL AACOUNTS: debit all expenses and losses and credit in all income gains.

Q6: How many types of people use financial data and for what purposes ? explain their types with examples (5 marks)

ANS: The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The three major financial statement reports are the balance sheet, income statement, and statement of cash flows.

# End of the Paper