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Question # 1

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AICPA

The non profit organization of Certified Public accountants in the United States. The American Institute of Certified public Accountants was founded in 1887, Under the name American Association of the public Accountants in order to ensure the that accountancy gained respect as a profession and that it was practiced by ethical, Competent professionals. The AICPA exists to provide CPA services in the highest professional manner.

Role of AICPA

AICPA is a professional accounting organization The members of AICPA are Certified Public accountants (CPAS). In 1930 there was a special Committee of AICPA whose working with with the NewYork stock exchange on the issues of Common interest. The result of this Committee was the establishment of two standing Committees in 1939 Known as the Committee Committee on accounting procedure and the Committee on accounting Terminology. These

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Committees were operational from 1939 to 1959 and issued 51 Accounting Research Bulletin known as (ARBs). These Committees used an approach known as problem by problem approach they review only those issues where the problems ~~as~~ arose are related to those issues and later this method was known as bruch fire.

ARBs were part of GAAP unless they have been replaced.

Later on in 1959 the AICPA replaced the two Committees with named ~~a~~ Accounting principles Board (APB) and the Accounting Research Division (ARD). The Job of ARD was to provide research to help the APB in making decisions regarding accounting principles. But ~~in~~ at the end the APB and the ARD were not successful in formulating broad principles. The APB and ARD worked together till 1959 to 1973. ARD issued 14 Accounting Research Studies on the other hand APB issued 31 opinions (APBOs) and four statements (APBSs). APBOs are part of GAAP unless they had been replaced. Pressure from various sources forced to find another way of developing GAAP

A special study group of the AICPA recommended another approach the establishment of the Financial Accounting Standards Board (FASB) in 1972. and adopted these recommendations in 1973.

AICPA had responsibility for developing accounting principles Many of the principles developed

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by the AICPA continues to conduct research into accounting ~~a~~ issues and to make its findings known to the FASB.

Other Roles

* Obtain greater involvement of users of financial statements in setting auditing standards, while developing new guidance on such topics as auditor rotation requirements and compensation policies.

* Serve as a liaison between market institutions and corporations finding new ways to communicate anti-fraud controls and programs to to the public and facilitating input on these measures from stock exchanges and others. (e.g in the form of a "summit meeting")

* Promote academic research into such topics as how investors can help protect themselves against fraud through alliances, such as one with the association of Certified fraud Examiners.

* Change the continuing education rules for CPAs to include more credits on fraud detection.

* Initiate debates on such topics a big GAAP/ Little GAAP. (i.e... use of the same ~~ofo~~ different ~~Ga~~ accepted account principles for big and small companies

* Revise standards so the public will be put on notice when an auditor communicates internal control weaknesses to an audit committee

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Question # 1

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FASB

The financial Accounting standards Board (FASB) is a private non-profit organization standard setting body whose primary purpose is to establish and improve Generally accepted accounting principles within the United states in the public's interest. The Securities and exchange Commission (SEC) designated the FASB as the organisation responsible for setting accounting standards for public Companies in the U.S the FASB replaced the AICPA.

FASB is founded in 1972 and operational in 1973

FASB accounting standards are accepted as authoratative by many organizations, including state board of accountancy and the American institute of CPAs (AICPA).

FASB is a seven members independent board consisting of accounting professionals who establish and communicate standards of financial accounting and reporting in the United states.

Role of FASB

FASB was established to develop a set of financial financial accounting standards known as GAAP, for the private sector.
GAAP instruct Companies on how to prepare financial reports. Having a set of standards ensures businesses disclose the same information in a uniform manner.

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FACB has a unique position in the financial reporting process. Its main goal is to provide leadership for public companies in establishing and improving the accounting methods used to prepare financial statements. ~~The~~

The goal of the FASB is to help stakeholders make informed investment decisions based on honest financial statements. The standards are design to promote transparency in financial reporting when information is transparent it is visible and understandable to public,

Impacted Areas

The accounting standard developed by the FASB directly impact how business report items such as inventory costs, debt, assets, revenue, stockholder's equity and taxation. For example:- In 2010 the FACB annouced that Businesses must report revenue in the period it is earned. Previously, Companies were able to report revenue when it was recieved. This standard greatly affects the income statement of the Company's profit and losses. When all companies in one industry are required to report revenue in the same manner, the public can compare their financial statements to each other more easily.

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SEC Role (C) Question # 1

The SEC (Securities and exchange Commission) has the legal authority to specify generally accepted accounting principles (GAAP). However, the SEC generally has choosen not to develop its own principles, but rather to support those of the FASB. Thus SEC gives the force of law to generally accepted accounting principles.. The SEC also reveiws the financial statements of all publicly owned companies, and investigates possible voilations of federal Securities laws.

Information about publicly-held companies is most easily obtained from SEC. Publicly owned Corporations must file their quaterly and annual financial statements for review by this agency. The SEC then places this information on EDGAR, a data base accesible to the public on the internet.

Question #2

The statement mentioned above in the question that "the only accurate way to account for the success or failure of an entity is to accumulate all transactions from the opening of business untill the business eventualy liquidates" was valid and acceptable in the early times or long time ago because at those times the businesses were not of that much long duration as compare to businesses today/now a days. The above statement shows the time period for reporting.

Now a days the businesses are of long duration so it will not be suitable to wait for the liquidation to account about its success or failure.

But there is also a problem in the accounting for the success or failure in of the business in the middle of the period in the shape of errors and inaccuracies. Because many of the transactions and commitments may be incomplete at that time. which will cause inaccuracies. One can eliminate these inaccuracies but not completely.

(b) Question #2

Necessity of having Completly Accurate Statements

If you're going to have any productive Conversation with a Potential investor, lender, or partner, you'll need up-to-date and and Complete Financial statements to made him agree/ Convince to invest in your Business/Company.

Accurate and Complete financial statements Can help you run your Business more effiently and effectively.

Identify Business Opportunities

You Can use the data of accurate statements to make important business decisions.

For example! a Businessman Can know about his actual assets which help him in making future investment decisions.

Building Trust

Accurate financial statements build trust of investors, vendors, and lenders on Company. If a business provid accurate data in their statement to the investors in future investors invest more and they also invite other investors to invest in this Company.

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Expand Business

The Company's Financial statements can help the business expand.
Potential clients, investors, and suppliers will want to see your track record before they decide to do business with you.

Help Reduce Tax Burden

The more successful your business is the more taxes you have to ~~pa~~ pay.
Financial statements show you not just where your money is going, but all the possible tax breaks and loop holes you should ~~be~~ taking advantage of.

9 Question # 3

Basic Forms of Business

1. Sole Proprietor ship
2. Partnership
3. Corporation

1. Sole proprietor ship. is a business owned by one individual, is not a legal entity separate from its owner, but the accountant treats the business as a separate accounting entity. The profit or loss of the proprietorship goes on the ~~on~~ income tax return of the owner the owner is responsible for the debt or loss of the sole proprieter ship.
Sole proprietorship is the most common form of business organization. It's easy to form and offers complete managerial control to the owner. However, the the owner is also personally liable for all financial obligations of the business.

2. Partnership. is a business owned by two or more individuals. Eeach owner called a partner, is personally responsible for the debts of the partnership. The accountant treats the partners and the business as a separate accounting entities. The profit or loss of the partnership goes on the individual income tax ~~ret~~ return of the partners. Like a proprietorship a partnership may qualify to ~~be~~ treated as

as LLC. As an LLC, the owners may ~~[illegible]~~ limit the laibility of the partners, but may increase the tax exposure of the partnership.
In partnership both the partners are agree to share their profit and loss.
Advantage of the partnership is that the partnership does not bear the tax burden of profits or the benefit of losses - profit or losses are "passed through" to partners to report on their individual income tax returns.

Corporation :-

is a legal entity that is Created to Conduct business. The Corporation becomes an entity - seperate from those who founded it. that handles the responsibilities of the organization. Like a perso the Corporation be taxed and can be held legaly laible for its actions. The Corporation Can also make a profit. The Key benefit of Corporate status is the avoidance of personal laibility. The disadvantage is the Cost to form a Corporation and the extensive record keeping thats required. While double taxation is also ~~[illegible]~~ the disadvantage of Corporation. There are different types of Corporation eg S Corporation
C. Corporation

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Important Financial Statements

1. Balance Sheet
2. Income Statement
3. Cashflow

1. Balance sheet

Balance sheet is the statement which shows the financial condition of an accounting entity as of a particular date.

The balance sheet consists of three major sections Assets "the resources of the firm", Laibilities "the debts of the firm", and stock holder equity the owner's interest in the firm.

At any point in time, the total assets amount must be equal to the total amount of the contribution of the creditors and owners.

Assets = Laibilities + Stockholder's Equity

Importance

: It is an important tool used by the investors, creditors and other stake holder to understand the financial health of an entity.

The growth of an organization can be known by comparing the balance sheet of different years.

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It is an essential document required to be submitted to the bank to obtain a business loan.

Stakeholders can understand the business performance and liquidity position of the entity. Ability to undertake expansion projects and meet unforseen expenses can be determined by analyzing a company balance sheet.

Income Statement

An income statement or profit and loss statement is a record that measures and shows all the expenses and and revenues of a company incurred during a specific period of time. The income statement helps determine a compan's financial health and the financial progress it made during a particular period.

The income statement contains sections for revenue and expenses, which include net sales, gross profit, cost of good sold, selling expenses, general and administrative expenses, and net profit

Importance

Helps Make Better Decisions

With a profit and loss statement on hand a business owner is able to look at the past financial performance of their company, with essetial data at hand, from sales to profit and operating and non-operating aspects a business owner will be able to make better financial decisions

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Acts as a proof of Business Success

Having income statement on paper means that a business owner is able to show a chronological record of how their business has been the overcourse of its existence.

Helps prepare a Business file taxes

Businesses and its owners are subject to various forms of business taxes, paying these taxes is obligatory by law. In order to ensure what tax laibilities a business has, income statements and other financial statement help out. Accurate and upto date income statement give a business owner all the necessary information they need to calculate various taxes

Cash Flow

The statement of cashflow is is a financial statement that summarizes the amount of cash and cash equivalents entering and leaving company.

The cashflow statement measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses.

The cashflow statement complements the balance sheet and income statement and is a madatory part of company's financial report.

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Importance of Cashflow

Helps to make cash Forcast

Cashflow help's management to make a cash forcast for the near future. A projected cashflows statement helps the management about the cash position which is the basis for all operations and thus management sees light relating to cash positions.

Helps the internal management

It helps the internal management to determine the financial policy to be adopted in future since it supplies information relating to funds. e.g taking decisions about the replacement of fixed assets or repayment of long-term liabilities, etc.

Reveal the Cash Position

It is a significant pointer about the movement of cash. i.e whether there is any increase in cash or decrease in cash and the reasons thereof which helps the management.

Reveal the result of Cash planning

How far and to what extent the cash planning becomes successful is revealed by the analysis of cashflow statement.