**MID TERM EXAMINATION OF BBA FIRST SEMESTER PAPER OF FINANCIAL ACCOUNTING**



**SUBMITTED TO**

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**Q1: DIFFERENCIATE BETWEEN CURRENT ASSETS AND FIXED ASSETS IN YOUR OWN WORDS WITH EXAMPLE?**

**Current assets:**

 are assets that can be converted into cash within one fiscal year or one operating cycle. Current assets are used to facilitate day-to-day operational expenses and investments. As a result, short-term assets are liquid meaning they can be readily converted into cash.

**Examples of current assets include**:

* Cash and cash equivalents, which might consist of certificates of deposit
* [Marketable securities](https://www.investopedia.com/terms/m/marketablesecurities.asp) such as equity or debt securities
* [Accounts receivable](https://www.investopedia.com/terms/a/accountsreceivable.asp), or money owed to the company for selling their products and services to their customers
* Inventory
* [Prepaid expenses](https://www.investopedia.com/terms/p/prepaidexpense.asp)

**Fixed assets:**

are noncurrent assets that a company uses in its production or goods and services that have a life of more than one year. Fixed assets are recorded on the balance sheet and listed as property, plant, and equipment (PP&E). Fixed assets are [long-term assets](https://www.investopedia.com/terms/l/longtermassets.asp) and are referred to as tangible assets, meaning they can be physically touched.

**Examples of fixed assets include**:

* Vehicles like trucks
* Office furniture
* Machinery
* Buildings
* Land

**Key Differences between Fixed Assets and Current Assets**

Fixed assets undergo depreciation which divides a company's cost for non-current assets to expense them over their useful live Depreciation helps a company avoid a major loss when a company makes a fixed asset purchase by spreading the cost out over many years. Current assets are not depreciated because of their short-term life.1﻿

**Noncurrent assets (like fixed assets) cannot be liquidated**readily to cash to meet short-term operational expenses or investments.

**Fixed assets have a useful life of over one year,** while current assets are expected to be liquidated within one fiscal year or one operating cycle.

**Q2: what is the difference between cash flow statement and income statement explains with example?**

## Cash Flow Statement

A cash flow statement shows the exact amount of a company's cash inflows and outflows, traditionally over a one-month period. It captures the current operating results and changes on the balance sheet, such as increases or decreases in accounts receivable or accounts payable, and does not include noncash accounting items such as depreciation and amortization. The cash flow generally comes from revenue received as a result of business activity, but it may be augmented by funds available as a result of the credit. A cash flow statement is used to determine the short-term viability and liquidity of a company, specifically how well it is positioned to pay its bills to vendors.

A cash flow statement is generally divided into three main parts:

**Operating activities:** Analyzes a company’s cash flow from net income or losses by reconciling the net income to the actual cash the company received from or used in its operating activities.

**Investing activities:** Shows the cash flow from all investing activities, which generally include purchases or sales of long-term assets, such as property, plant, and equipment, as well as investment securities.

**Financing activities:**Shows the cash flow from all financing activities, such as cash raised by selling stocks and bonds, or borrowing from banks.

The most common financial statement is the income statement, which shows a company's revenue and total expenses, including noncash accounting such as depreciation, traditionally over a one-month period.

## Income Statement

The most common financial statement is the income statement, which shows a company's revenue and total expenses, including noncash accounting such as depreciation, traditionally over a one-month period. An income statement is used to determine the performance of a company, specifically how much money it made, how much money it paid out, and the resulting profit or loss from the revenue and expenses.3﻿

The cash flow statement is linked to the income statement by net profit or net burn. The profit or burn on the income statement then is used to calculate cash flow from operations. This is referred to as the indirect method. Another technique, called the direct method, can also be used to prepare the cash flow statement. In this case, the money received is subtracted from the money spent to calculate net cash flow.

### differences

* The cash flow statement and the income statement are integral parts of a corporate balance sheet.
* A cash flow statement shows the exact amount of a company's cash inflows and outflows over a one-month period.
* The income statement is the most common financial statement, and shows a company's revenue and total expenses, including noncash accounting such as depreciation, over a one-month period.
* The cash flow statement is linked to the income statement by net profit or net burn, which is used to calculate cash flow from operation

**Q5: EXPLAIN DEBIT AND CREDIT RULES**

The following are the rules of debit and credit which guide the system of accounts, they are known as the Golden Rules of accountancy:

* First: Debit what comes in, Credit what goes out.
* Second: Debit all expenses and losses, Credit all incomes and gains.
* Third: Debit the receiver, Credit the giver.

Understand the [concept of Business Transaction and Source Document here](https://www.toppr.com/guides/accountancy/recording-transactions/business-transaction-and-source-document/) in detail.

A debit and credit entry have a broad impact on different accounts. For example, in

* Asset accounts, a debit increases the balance and a credit decreases the balance.
* Liability accounts, a debit decreases the balance and a credit increases the balance.
* Equity accounts, a debit decreases the balance and a credit increases the balance.
* [Revenue accounts](https://www.toppr.com/guides/economics/government-budget-and-the-economy/revenue-account-and-capital-account/), a debit decreases the balance and a credit increases the balance

**Solved Question**

Question: Provide journal for the following transactions –

1. Cash Sale
2. Cash Purchase
3. Repayment of loan

Solution:

1. Sale for cash

Cash A/c – Dr.

To Sale A/c

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

The accounting process provides financial data for a broad range of individuals whose objectives in studying the data vary widely.   Three primary users of accounting information were previously identified, Internal users, External users, and Government/ IRS.  Each group uses accounting information differently, and requires the information to be presented differently.

**Internal users**

Accounting supplies managers and owners with significant financial data that is useful for decision making. This type of accounting in generally referred to as managerial accounting.

 Some of the ways internal users employ accounting information include the following:

* Assessing how management has discharged its responsibility for protecting and managing the company’s resources
* Shaping decisions about when to borrow or invest company resources
* Shaping decisions about expansion or downsizing

**External Users**

Typically called financial accounting, the record of a business’ financial history for use by external entities is used for many purposes.  The external users of accounting information fall into six groups; each has different interests in the company and wants answers to unique questions. The groups and some of their possible questions are:

**Owners and prospective owners.** Has the company earned satisfactory income on its total investment? Should an investment be made in this company? Should the present investment be increased, decreased, or retained at the same level? Can the company install costly pollution control equipment and still be profitable?

**Creditors and lenders.** Should a loan be granted to the company? Will the company be able to pay its debts as they become due?

**Employees and their unions.** Does the company have the ability to pay increased wages? Is the company financially able to provide long-term employment for its workforce?

**Customers.** Does the company offer useful products at fair prices? Will the company survive long enough to honor its product warranties?

**Governmental units.** Is the company, such as a local public utility, charging a fair rate for its services?

**General public.** Is the company providing useful products and gainful employment for citizens without causing serious environmental problems?

Some of the ways external users employ accounting information include the following:

* Stockholders have the right to know how a company is managing its investments
* Federal and State Governments require tax returns and other documents often prepared by accountants
* Banks or lending institutions may use accounting information to guide decisions such as whether to lend or how much to lend a business

Investors will also use accounting information to guide investment decisions

#### Government / IRS

Government agencies that track and use taxes are interested in the financial story of a business.  They want to know whether the business is paying taxes according to current tax laws. The language in which tax-related financial statements are prepared is called IRC or Internal Revenue Code.  Tax preparation will of this course.

**Important points to be remember**

**Internal users:**

are people within a business organization who use financial information. Examples of internal users are owners, managers, and employees.

**External users:**

are people outside the business entity (organization) who use accounting information. Examples of external users are suppliers, banks, customers, investors, potential investors, and tax authorities.

**Q2: BALANCE SHEET**

Buttler malik and company

Balance sheet

As at February 30, 2020

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | **RS** | **liability + owner equity** | **RS** |
| Land  building  furniture  supplies  cash  A/R | 555000  545000  520000  53440  57400  51250 | Notes payable  Account payable  Capital | 570000  658090  554000 |
| Total assets | **1782090** | **Total liability and equity** | **1782090** |

Note

**The account payable balance is (658090)**

**Q2: suppose you are a bank manager and a company is requesting for a loan so on what ground you will take your final decision to approve or deny it request?**

Since banks’ profitability is partly determined on how well they analyze corporate loan applications, the review process is quite relevant to risk management. To help the bank determine company viability and capacity to repay a loan, many financial, operational, market and economic factors are weighed into the loan application and company analysis.

**Bank pollicy and loan criteria**

Since banks’ profitability is partly determined on how well they analyze corporate loan applications, the review process is quite relevant to risk management. To help the bank determine company viability and capacity to repay a loan, many financial, Capacity: Financial resources available to repay a loan Character: Professional ability, history and credibility Collateral: Assets that can be used to secure loans Capital: Personal and other funds already invested in the business Conditions: Business revenue, income and commercial potential

**Company performance factors**

Company ability to provide all required documentation Debt level below a percentage of total average annual income Debt level below a percentage of company asset value Potential and probability of loan to facilitate profitability Credibility with vendors, lenders and credit agencies Banking history and assets held within the bank Proven company compliance with government tax code Compliance with loan terms and agreements

**Analytical tools used by banks**

Ratio analysis Cash-Flow analysis Operational risk assessment Bookkeeping evaluation Breakeven analysis Forecast and probability measurement Multivariate analysis Each of the above analytical tools is designed to measure different aspects of a business’ performance. Since no one metric is able to provide a complete picture of a company’s valuation, ability to repay, credibility, profitability etc. multiple analytical tools must be used.

**Note**: if the company full fill the above criteria like bank loan policy , if the company performance is good its provide all the required documents and special tools available is their analytical tools ratio analysis I will check the company ratio if its better we will accept the loan request otherwise vice versa

**Thank you**