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Subject : Financial Reporting And Analysis

Q#1

Discuss the role of each of the following in the formulation of accounting principles:

1. American Institute Of Certified Public Accountants
2. Financial Accounting Standards Board
3. Securities And Exchange Commission

A#1

1. American Institute Of Certified Public Accountants: American Institute Of Certified Public Accountants (AICPA) plays a very important role in the formulation of accounting principles. (AICPA) was established in 1887, it’s role is to create and grade the Certified Public Accountant (CPA) examinations. AICPA was the first organization to create the original financial accounting standards under GAAP. In the 1970s, it transferred it’s responsibility for setting generally accepted accounting principles (GAAP) to the newly formed Financial Accounting Standards Board (FASB). The AICPA sets generally accepted professional and technical standards for CPAs in multiple areas. However, the AICPA’s mission is to power the success of global business, CPAs, CGMAs, and specially credentials by providing the most relevant knowledge, resources and advocacy, and protecting the evolving public interest. The AICPA retains considerable influence in setting standards, enforcing ethical practice and monitoring service quality in relation to accepted accounting practices for CPAs in private or who provide services to individuals and privately held companies. The AICPA also provides technical and administrative support as needed. The ACPA is the largest trade organization for professional accountants. AICPA membership count exceeds 400,000 and include members from 145 countries. The AICPA members hold positions in the government, educational institutions, public corporations or non-profit organizations. They may also be in private companies.
2. Financial Accounting Standards Board : The Financial Accounting Standards Board (FASB) also plays a very important role in the formulation of accounting principles. In 2009, the FASB announced the launch of it’s Accounting Standards Codification, an online research system representing the single source of authorative non-governmental U.S GAAP, available from the FASB in multiple views. Professional views, Academic views, and basic views. The codification organizes the pronouncements that constitute U.S GAAP into a consistent, reachable, format. In 2016, the FASB issued an ASU that improves financial reporting by requiring timelier recording of credit loses on loans and other financial instruments held by financial institutions and other organizations.

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Under the new standard, the decision whether to consolidate is determined by two factors ; a company’s design and intention and a parent company’s ability to direct that organization actions in a way that significally impacts it’s economic performance. In 2006, the FASB issued Employer’s accounting for defined Benefit Pension and other Post retirement plans. The FASB issued a statement on shore based payements. In 2004, developed jointly with the IASB. The standard update requires companies to identify the cost of share-based payements withing there financials. In 2006, the FASB issued a new leases standard, to improve financial reporting about leasing transactions. The FASB also further improved derivative accounting in 2017. These were some of the roles of the Financial Accounting Standards Board (FASB) in the formulation of accounting principles. The FASB accounting standards are accepted as authoritative by many organizations, including state Boards of accountancy and the American Institute of CPAs.

1. Securities And Exchange Commission : The role of the securities and exchange commission itself is to maintain efficient , transparent and effective markets. It is the responsibility of the commission to interpret and enforce federal securities laws. Issue new rules and amend existing rules. Oversee the inspection of securities firms, brokers, investment advisers, and ratings agencies. Oversee private regulatory organizations in the securities, accounting, and auditing fields, and coordinate U.S securities regulation with federal, state, and foriegn authorities. In the United States, the SEC has the ultimate authority for companies whose securities are sold to the general public. However, the SEC has relegated much of the standard setting to the private sector in the form of the Financial Accounting Standard Board (FASB). The SEC has allowed the accounting profession to establish it’s own rules. The SEC has allowed the accounting profession to establish it’s own rules.

Q#2

The only accurate way to account for the success or failure of an entity is to accumulate all transactions from the opening business until the business eventually liquidates. Comment on whether this is true. Discuss the necessity of having complete accurate statements.

A#2

The only accurate way to account for the success or failure of an entity is to accumulate all transactions from the opening of business until the business eventually liquidates.

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I think this statement is true, because a complete and correct set of information about transactions of a firm is very important. Financial Analysis And Reporting is a critical field, its contains maths. Any small mistake may lead to bigger problems in a firm. A company’s financial statements provides vital information about it’s financial health. These statements are compiled based on day-to-day bookkeeping that track fund flowing in and out of the business. The information the statement provides offer benchmarks and feedback that help the company make minor adjustments and also determine it’s overall direction. Financial statements are useful for making decisions regarding expansion and financing. They also figure into marketing decisions, providing data indicating which aspects of company operations provide the best return on investment. It is very important to have accurate and timely financial statements to understand and run the business.

Accurate financial statements helps in real time tracking because by gaining access to centralized, real time insights. It is then possible to make accurate, informed decisions, swiftly, thereby avoiding any potential roadblocks while maintaining your financial fluidity at all times.

Accurate financial statements also helps in improved debt management, trend identification liabilities, and progress and compliance. Provided accurate data, the firm will succeed, and if not, may fail.

Q#3

Introduce the basic form of business that exist in any economy. Which financial statements are the most important for any financial analysis? Introduce these statements and explain it in detail how they are important for any financial analysis and decision making.

A#3

The basic form of business that exist in an economy are the :

1. Sole Proprietorships
2. Partnerships
3. Corporations

Sole Proprietorships : Is the oldest form of business organization. A single person owns the business, holds little to all it’s assets, and is personally responsible for all of it’s debts. A proprietorship pays no separate income taxes. The business is widely used in service industries because of its simplicity, a sole proprietorship can be established with few complications and little expense. Simplicity is it’s greatest value.

Partnerships : A partnership is similar to proprietorship , except there is more than one owner. A partnership, like proprietorship, pays no income taxes. Instead, individual partners include there shape of profits or lesser from the business as part of there personal taxable income. A greater amount of capital can often be raised. In partnerships, all the partners have limited liability, they are jointly liable for the obligations, general partners should be settled with care.

Corporations : A corporation is an artificial entity created by law. It can own assets and incur liabilities. The principle feature of this form of business organization is that the organization exists legally separate and apart from its owners. A owners liablility is limited to his or her investment. Capital can be raised in the corporation’s name without exposing the owners to unlimited liability.

The financial statements that are most important for any financial analysis are,

1. The income statement
2. The balance sheet
3. The statement of cash flows

The Income statement : Provides a financial summary of the firms operating results during a specific period. Most common are income statements covering a 1 year period ending at a specified date, ordinarily December 31 of the calendar year. Many large firms, however , operate on a 12 month financial cycle, or fiscal year, that ends at a time other than December 31. In addition, monthly income statements are typically prepared for use by management, and quarterly statements must be made available to the stockholders of publicly owned corporations.

Balance sheet : The balance sheet presents a summary statements of the firms financial position at a given point in time. The statement balances the firm assets(what it owns) against it’s financing, which can be either debt (what it owes), or equity(what was provided by owners). An important distinction is made between short term assets and liabilities. The current assets and current liabilities are short term assets and liabilities. This means that they are expected to be converted into cash (current liabilities) or paid ( current liabilities) within 1 year or less.

Statement of cash flows : The statement of cash flows is a summary of the cash flows over the period of concern. The statements provides insights into the firms operating, investment, and financial cash flows and reconciles them with changes in it’s cash an marketable securities during the period.

These financial statements provide detailed information on the accounting policies, procedure, calculations, and transactions underlying entries in the financial statements. Professional security analysis use the data in the statements and notes to develop estimates of the value of securities that the firm issue and these estimates influence the actions of investors and therefore the firms share value.

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Financial statements are neutral, they present an accurate picture of the activities of the business over a defined period. The business manager then evaluates the data to make operating decisions, such as whether the business is positioned to free up existing cash for operating expenses or needs to obtain additional credit.