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**Module Leader: Quaid Iqbal Module: Principles Of Accounting**

**Spring Semester 2020 Online Assignment (30 Marks)**

**Instructions**: These questions should be solved and submitted in MS World format

**Best Of Luck**

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

. Fixed assets also called long-term assets, fixed assets are held by a business with the intentions of continuing use and not to be resold in a short period of time.

2. Fixed assets would usually last for more than a year or 1 complete accounting cycle of a business.

3. They are bought from long-term funds deployed within a business.

4. These assets are used to keep a business running and earn profits out of operations.

5. If and when required, fixed assets are not easy to convert into cash.

6. Examples of fixed assets include **Machinery, Building, and Furniture etc**.

Current assets

On the contrary, current assets are kept for resale, can be converted into cash or an equivalent in a short period of time.

2. Current assets are likely to be realized within a year or 1 complete accounting cycle of a business.

3. They are bought out of short-term funds deployed within a business.

4. These are assets which are converted to cash or exhausted during the regular accounting cycle of a business.

5. Current assets are easy to liquidate as compared to fixed assets.

6. Examples of current assets include **Cash in hand, Cash at the bank, Stock, Debtors etc**.

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)

**Answer:** IF I am a bank manager and a company is requesting for loan, first of all I watch how the company is performing how the performing of company income statement as to how they are performing, whether they are getting profit or losses if they are getting profit I would consider giving them a loan.

 I would also make sure that this company honestly back my loan or not they have the ability to repay the loan back.

If the company fulfils the above criteria as a bank manager, I would approve of giving them a 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?

|  |  |
| --- | --- |
| Assets | Liabilities and owners’ equity |
| Cash…7400 $ | Notes payable…70000 $ |
| Account Receivables…1250 $ | Account Payable…8000 $ |
| Supplies…3440 $ | Total…78000 $ |
| Land…55000 $ | Owner’s equity $ |
| Building…45000 $ | Capital…54090 $ |
| Furniture and fixture…20000 $ |  |
| Total…132090 $ | Total…132090 $ |

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

Income statement represents the financial performance of an organization for a specific period. And cash flow statement represents the movements of cash and cash equivalents of an organization for a specific period. Both of these two statements, along with some other statements, forms the financial statement of an organization for that specific period

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

## Rules of debit and credit

### (1). Asset accounts:

**Normal balance:** Debit

**Rule:** An increase is recorded on the debit side and a decrease is recorded on the credit side of all asset accounts.

### (2). Expense accounts:

**Normal balance:** Debit

**Rule:**An increase is recorded on the debit side and a decrease is recorded on the credit side of all expense accounts.

### (3). Liability accounts:

**Normal balance:** Credit

**Rule:**An increase is recorded on the credit side and a decrease is recorded on the debit side of all liability accounts.

### (4). Revenue/Income accounts:

**Normal balance:** Credit

**Rule:**An increase is recorded on the credit side and a decrease is recorded on the debit side of all revenue accounts.

### (5). Capital/Equity accounts:

**Normal balance:** Credit

**Rule:**An increase is recorded on the credit side and a decrease is recorded on the debit side of all equity accounts.

### (6) Contra accounts:

**Normal balance:** Always opposite to the relevant normal account. The normal balance of a contra account can be a debit balance or a credit balance

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

**Suppliers** need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health.

**Customers** use Financial Statements to assess whether a supplier has the resources to ensure the steady supply of goods in the future. This is especially vital where a customer is dependent on a supplier for a specialized component.

**Employees** use Financial Statements for assessing the company's profitability and its consequence on their future remuneration and job security.

**Competitors** compare their performance with rival companies to learn and develop strategies to improve their competitiveness.

**General Public** may be interested in the effects of a company on the economy, environment and the local community.

**Governments** require Financial Statements to determine the correctness of tax declared in the tax returns. Government also keeps track of economic progress through analysis of Financial Statements of businesses from different sectors of the economy.

**Managers** require Financial Statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions.

**Shareholders** use Financial Statements to assess the risk and return of their investment in the company and take investment decisions based on their analysis