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

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

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

Current assets:

1. current assets are those assets which are used in short tirm.

2. The duration of current assts are less than fixed assets.

3. The useful life of current assets is less than one year.

Example: prepaid expenses, account recevable and mainly cash.

Fixed assets:

1. Fixed assets are those assets which are used for long term.

2. the duration of fixed assets are longer than current assets.

3. the useful life of fixed assets is greater than one year.

Example: land, duilding, furniture, machinary 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)**

Four things must be considered

1. The financial status of company, if it has enough liquid arest to repay the loan, grant them.

2. the offered collateval must be observed.

3. CBI report of company has to be overviewed if they have a sound history, garant them and vice versa.

4. we have to check the companys past history in terms of paying back and and the companies credit score if they are good in and having no debt in past.

**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?**

Butter Milk

Balance Sheet

February 30,2020

Assets Liabilities & Owner equity

Land 55,000 Note payable 70,000

account recivable 1,250 account payable 8,000

cash 7,400 capital 54,090

furniture and fixture 20,000

supplies 3,440

building 45,000 liabilities(78000)+owners equity(54,090)=

Total Assets: 132,090 Total: 132,090

=> Account payable is 8,000

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

Cash flow statement:

1. the cash flow statement is also a part of financial statement which is used to reflect the inflow and outflows of cash for a particular accounting period.

2. It is on cash basis.

3. It is prepeared on basis of income statement and balance sheet.

4. the objective of cashflow statement is to acuration the liquidity and solvency of businers.

5. the deprecation is not considered in cash flow statement.

Income statement :

1. The income statement is a part of financial statement which is used to show the revenues, gains, loses it expenses for a particular accounting period.

2. Income statement is on accural basis.

3. It is prepared on the basis of various records and ledger accounts.

4. The objective of income statement is to know the liability and owners equity.

5. the depreceation is considerd in income statement.

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

Debits and credits are the opposing sides of an accounting journal entry. They are used to change the ending balances in the general ledger accounts.

The rules governing the use of debits and credits in a journal entry are as follows:

Rule 1: All accounts that normally contain a debit balance will increase in amount when a debit (left column) is added to them, and reduced when a credit (right column) is added to them. The types of accounts to which this rule applies are expenses, assets, and dividends.

Rule 2: All accounts that normally contain a credit balance will increase in amount when a credit (right column) is added to them, and reduced when a debit (left column) is added to them. The types of accounts to which this rule applies are liabilities, revenues, and equity.

Rule 3: Contra accounts reduce the balances of the accounts with which they are paired. This means that (for example) a contra account paired with an asset account behaves as though it were a liability account.

Rule 4: The total amount of debits must equal the total amount of credits in a transaction. Otherwise, a transaction is said to be unbalanced, and the financial statements from which a transaction is constructed will be inherently incorrect. An accounting software package will flag any journal entries that are unbalanced, so that they cannot be entered into the system until they have been corrected

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

Financial data consists of pieces or sets of information related to the financial health of a business. The pieces of data are used by internal management to analyze business performance and determine whether tactics and strategies must be altered

For example:

1. Investors. Investors will likely require financial statements to be provided, since they are the owners of the business and want to understand the performance of their investment.

2. Customers. When a customer is considering which supplier to select for a major contract, it wants to review their financial statements first, in order to judge the financial ability of a supplier to remain in business long enough to provide the goods or services mandated in the contract.

3. Suppliers. Suppliers will require financial statements in order to decide whether it is safe to extend credit to a company.

4. Governments. A government in whose jurisdiction a company is located will request financial statements in order to determine whether the business paid the appropriate amount of taxes.

5. Unions. A union needs the financial statements in order to evaluate the ability of a business to pay compensation and benefits to the union members that it represents.