SAADAT ULLAH JAN

ID # 16627

MBA-72

FINAL EXAM.

FINANCIAL ACCOUNTING.

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Question # 4:

ⓐ Straight line method:

Cost = $ 145,000
Salvage value = $ 25,000
Useful life = 5 years

$$\text{Depreciation Expense} = \frac{\text{Cost} - \text{Salvage value}}{\text{useful life}}$$

$$= \frac{\$145,000 - \$25,000}{5}$$

Depreciation Expense = $ 24,000 / year

2017 Depreciation = $ 24,000 × 3/12 (Oct - Dec)

2017 Depreciation = $ 6000

ⓑ Unit of activity Method:

$$\text{Depreciation per unit} = \frac{\text{Cost} - \text{Salvage value}}{\text{Total estimated production unit}}$$

$$= \frac{\$145,000 - \$25,000}{20,000}$$

Depreciation per unit = $6 per hour.

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for 2017:

Total hours used = 3400

= Depreciation expense per hour x Total hours

= 6 x 34,00

2017 Depreciation = $20,400

(c) Declining balance method:

Straight line Depreciation rate = $\frac{1}{\text{useful life}}$

$= \frac{1}{5} = 0.2 = 20\%$

Double depreciation rate = 20% x 2
= 40%

2017 Depreciation = $145,000 x $\frac{3}{12}$ x 40%

2017 Depreciation = $14,500

2018 Depreciation = Cost - Acc Dep
= $145,000 - $14,500
= $130,500

=> $130,500 x 40%

2018 Depreciation = $52,200

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Question # 2: Explain the concept of partnership in detail with its different properties.

Answer: The combination of entreprenurial talents, experience and capital makes the formation of a partnership. Small buisinesses and Professional services typically enter into partnership agreements when a partnership is formed, the articles of partnership are formed, it stipulates in paticularly how profits & losses are to be divided, the responsibilities of partners, the initial contributions, the name and nature of the business.

Characteristics

- Partnership have a limited life
- Partners involved have unlimited personal liabilities
- All partners have ~~the~~ access to and the right to use property (partnership)
- All partners share in profits or losses.
- It is a non-taxable entity. Income taxes are only paid by partners to the extent of their share of profits
- All partners are bound in contracts by other partners.

Advantages

- Capital, experience & entrepreneurial skills are combined.
- easy & inexpensive formattion.
- less goverment regulation
- non taxable entity.

Disadvantages

- mutual agency
- unlimited liability
- limited life
- limited capital raising abilities.

PROPERTIES

~~Accounting for Partnership~~:

It is similar to other forms of buisiness organizations. The same accounts are used with the exception of capital accounts. They have seperate

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drawing and capital accounts for each partner. Income is distributed differently from other forms of business organizations. As already stated, a partnership has a limited life which means special transaction needs to be performed upon the death or withdrawal of a partner, dissolution & liquidation.

Investing in a Partnership

Seperate enteries are required for each member that joins a partnership. A monetary value is assigned to all non cash assets contributed by each partner. The only recievables which are collectible should be recorded in a partnership books. Any liability entered into by members becomes liability of a newly formed buisness.

Dividing net profits or losses.

All members are entitled to share profits. if no provisions are set forth, beforehand, they must be shared equally. Partners commonly recieve a salary and an interest allowance. After all allowances, the remaining income is split accordingly to the agreed portions. A loss is also shared similarly.

Admitting new Partners.

Partners can be admitted into a partnership by either (a) purchasing an interest of the firm from a current partner or (b) contributing assets to the buisiness. In (a) only the capital accounts change while in (b) both assets and owner equity increases.

Financial statements for Partners.

Partnership must provide information on how net incomes ~~were~~ were distributed among partners. This info can be combined with the balance sheet or income statement. If desired, it can also be reported seperately.

Withdrawl of a Partner

A partner may withdraw from a partnership voluntarily by selling his or her equity in the firm or involuntarily by reaching a mandatory retirement age or by dying. It may be accomplished by payement from

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remaining partner's personal asset or payement from a partnership asset.

New partners and good will.

When a new partner is admitted, the profitability of a partnership often increases. Either the new or the former partner may be entitled to a bonus or goodwill. This is determined by bargaining between partners. Goodwill is recorded as an asset and is credited to the proper capital accounts.

Liquidation of a partnership. (terminating a buisiness)

Whenever ever a partnership liquidates, the following will occur:

- assets will be sold.
- creditor will be paid
- cash will be distributed to partner.
- partner with deficency pays partnership
- partners with credit capital balances absorb defficency in income sharing proportion.

Question # 1: What do we mean key financial statement analysis. Different tools? liquidity analysis & Activity analysis?

Answer: Financial statement analysis is the process of analyzing a companyes financial statements for decision making purposes. External stake holder use it to understand the overall health of an organisation as well as to evaluate financial performance and buisiness value. Internal constituents use it ~~to~~ as a monitoring tool for managing the finances. The financial statements of a company record important financial data on every aspect of a buisiness's activity. As such they can be evaluated on the basis of past, current and projected performance.

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Analysizing financial statements involves evaluating three characteristics of a company:
ⓐ its liquidity
ⓑ its profitability
ⓒ its solvency.

In a comparitive analysis, there are three types of comparisons
ⓐ intra company basis
ⓑ inter company basis
ⓒ industry averages.

Tools

Several techniques are used as part of financial statement analysis. Three of the most important techniques inclued Horizontal analysis, Verticle analysis and ratio analysis.

Horizontal Analysis

It compares data horizontally by analyzing values of line items across two or more years.

$$\text{Change since base period} = \frac{\text{Current year amount} - \text{Base year amount}}{\text{Base year amount}}$$

Verticle Analysis

It looks at verticle affects line items have on other parts of the buisiness as well as the buisiness proportions. It expresses each item in a financial statement as a percentage of a base amount (total assest or net sales).

$$\text{Verticle Analysis} = \left(\frac{\text{Statement line item}}{\text{Total base figure}}\right) \times 100$$

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Ratio Analysis

Ratio analysis uses important ratio metrics to calculate statistical relationships. It is divided into 3 kinds of ratios.

(a) Liquity Ratio: Measure short term ability of the enterprise to pay it's maturing obligations and to meet unexpected needs for cash.

(b) Profitability Ratio: Measure the income or operating success of an enterprise for a given period of time.

(c) Solvency ratios: Measure the ability of the enterprise to survive over a long period of time.

Net Income = Revenue − Expenses

Liquidity Analysis

The liquidity of the firm measured by the ability to satisfy short term obligation as they become due. It refers to the solvency of the firm overall financial position - the ease with which it can pay bills. A common precursor to finacial distress and bankcruptcy is low or declining liquidity. These ratios are viewed as good reading indicators of cash flow problems

Current Ratio

This ratios measures the financial strenghts of the company. The ideal value of this ratio is 2%. The higher the current ratio, the more liquid the firm is considered to be

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current liability}}$$

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Acid Test Ratio

It measures imediate short term debt paying ability.

$$\text{Acid test Ratio} = \frac{\text{Cash} + \text{temporary investments} + \text{net Recievables}}{\text{Current liabilities}}$$

Cash Current Debt ~~Ratio~~ Coverage Ratio

Measure short term debt paying ability (cash basis)

$$\text{cash current debt coverage ratio} = \frac{\text{Cash provided by operating Activities}}{\text{Average current liabilities}}$$

Recievable Turnover

Measures liquidity of recievables

$$\text{Recievable turnover} = \frac{\text{Net credit Sales}}{\text{Average net recievable}}$$

Collection Period

Measures the number of days recievables are outstanding.

Collection period = 365 days / Recievable turnover

Inventory Turnover

Measure liquidity of inventory

Inventory turnover = Cost of goods sold / Average inventory

Days Sales in Inventory

Measures the number of days inventory is on hand.

Days in Inventory = 365 days / Inventory turnover.

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ACTIVITY RATIO

It measures the speed with which various accounts are converted into sales or cash inflows or outflows. Measures of liquidity are generally inadequate because differences in composition of a firms current assets and current liabilities can affect its true liquidity.

Inventory Turn over

$$\text{Inventory turn over} = \frac{\text{Cost of goods sold}}{\text{Inventory}}$$

Average Collection Period

$$\text{Avg Collection Period} = \frac{\text{Accounts Recievable}}{\text{Annual sales per day}}$$

$$\left[\text{Annual Sales} = \frac{\text{Annual Sales}}{365}\right]$$

Average Payement Period

$$\text{Avg Payement Period} = \frac{\text{Accounts payble}}{\text{Avg Purchase per day}}$$

$$\left[\text{Avg Purchase Per day} = \frac{\text{Annual Purchase}}{365}\right]$$

Total Asset Turnover

$$\text{Total asset turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

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Question # 3:

Date	A/c Tittle	Debt $	Credit $
2, Jan, 17	Patent	$ 840,000	
	Cash		$ 840,000
	To record purchase of patent		
1, Apr, 17	Goodwill	$450,000	
	Cash		$450,000
	To record the purchase of Goodwill		
1, July, 17	Prepaid franchise	$330,000	
	Cash		$330,000
	To record the purchase of franchise		
1, Sep, 17	Research & Development	$210,000	
	Cash		$210,000
	To record expenditure of R&D		

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Adjusting enteries as of Dec 31, 2017

Date	Account / Explanation	Debit	Credit
31, Dec, 17	[240,000 × 1/7 = 120,000] Patent amortization expense	$ 120,000	
	Patent		$ 120,000
	To record amortization expense on patent		
31, Dec, 17	No entry Goodwill is not amortized. It is tested for impairment every year		
31, Dec, 17	Franchise fees $\left(30,000 \times \frac{1}{10} \times \frac{6}{12} = 16,500\right)$	$ 16,500	
	Prepaid franchise		$ 16,500
	To record franchise fees for 6 months (July to Dec 2017)		
31, Dec, 17	No entry Cost of Research and development is not amortized. The cost is expensed immediately.		

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