Course: Principles of Accounting (8401)
Semester: Autumn, 2021

ASSIGNMENT No. 1

Q. 1 (a) Discuss the main features of various financial statements?

The elements of financial statements are the general groupings of line items contained within the statements. These groupings will vary, depending on the structure of the business. Thus, the elements of the financial statements of a for-profit business vary somewhat from those incorporated into a nonprofit business (which has no equity accounts). The main elements of financial statements are as follows:

- Assets. These are items of economic benefit that are expected to yield benefits in future periods. Examples are accounts receivable, inventory, and fixed assets.
- Liabilities. These are legally binding obligations payable to another entity or individual. Examples are accounts payable, taxes payable, and wages payable.
- Equity. This is the amount invested in a business by its owners, plus any remaining retained earnings.
- Revenue. This is an increase in assets or decrease in liabilities caused by the provision of services or products to customers. It is a quantification of the gross activity generated by a business. Examples are product sales and service sales.
- Expenses. This is the reduction in value of an asset as it is used to generate revenue. Examples are interest expense, compensation expense, and utilities expense.

Of these elements, assets, liabilities, and equity are included in the balance sheet. Revenues and expenses are included in the income statement. Changes in these elements are noted in the statement of cash flows.

(b) What are the major fields of accounting?

There are several types of accounting that range from auditing to the preparation of tax returns. Accountants tend to specialize in one of these fields, which leads to the different career tracks noted below:

- Financial accounting. This field is concerned with the aggregation of financial information into external reports. Financial accounting requires detailed knowledge of the accounting framework used by the reader of a company's financial statements, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). Or, if a company is publicly-held, it requires a knowledge of the standards issued by the government entity responsible for public company reporting in a specific country (such as the Securities and Exchange Commission in the United States). There are several career tracks involved in financial accounting. There is a specialty in external reporting, which usually involves a detailed knowledge of accounting standards. There is also the controller track, which requires a combined knowledge of financial and management accounting.

- Public accounting. This field investigates the financial statements and supporting accounting systems of client companies, to provide assurance that the financial statements assembled by clients fairly present their financial results and financial position. This field requires excellent knowledge of the relevant accounting framework, as well as an inquiring personality that can delve into client systems as needed. The career track here is to progress through various audit staff positions to become an audit partner.
- Government accounting. This field uses a unique accounting framework to create and manage funds, from which cash is disbursed to pay for a number of expenditures related to the provision of services by a government entity. Government accounting requires such a different skill set that accountants tend to specialize within this area for their entire careers.
- Forensic accounting. This field involves the reconstruction of financial information when a complete set of financial records is not available. This skill set can be used to reconstruct the records of a destroyed business, to reconstruct fraudulent records, to convert cash-basis accounting records to the accrual basis, and so forth. This career tends to attract auditors. It is usually a consulting position, since few businesses require the services of a full-time forensic accountant. Those in this field are more likely to be involved in the insurance industry, legal support, or within a specialty practice of an audit firm.
- Management accounting. This field is concerned with the process of accumulating accounting information for internal operational reporting. It includes such areas as cost accounting and target costing. A career track in this area can eventually lead to the controller position, or can diverge into a number of specialty positions, such as cost accountant, billing clerk, payables clerk, and payroll clerk.
- Tax accounting. This field is concerned with the proper compliance with tax regulations, tax filings, and tax planning to reduce a company's tax burden in the future. There are multiple tax specialties, tracking toward the tax manager position.
- Internal auditing. This field is concerned with the examination of a company's systems and transactions to spot control weaknesses, fraud, waste, and mismanagement, and the reporting of these findings to management. The career track progresses from various internal auditor positions to the manager of internal audit. There are specialties available, such as the information systems auditor and the environmental auditor.

Q. 2 (a) How the study of accounting can be helpful in our daily life?

Accounting is one of the most essential disciplines for daily life. Not so long ago, people used physical checkbooks to track their spending and income. While these checkbooks have mostly been replaced with apps and digital tracking software, balancing a checkbook utilizes several of accounting's core elements.

The importance of accounting in our daily life shows up everywhere, from tracking our spending to shopping for groceries to paying bills. Chances are, you've used some basic accounting principles already today.

As strange as that may sound, the very act of checking your credit card balance or noting a pending charge to your debit card is a form of accounting.

Of course, accounting isn't always this passive. Most households set a weekly or monthly budget, track spending, make investments and put money into savings. Each of these practices is a form of accounting too.

Let's take a closer look at how different activities relate to accounting.

- **Budgeting:** Setting a budget is one of the first and most important steps that any accountant does for a client or for themselves. To set a budget properly, you need to carefully analyze your income, fixed expenses and existing liquid assets. Once you've done that, you can see how those numbers line up with your financial goals. For instance, if you make $2000 a month and want to save $500 per month, you need to have less than $1500 per month in fixed expenses.
- **Spending:** Budgeting well means balancing spending with income and making sure to leave money left over in case of an emergency or for savings should no unexpected emergencies occur.
- **Investments:** The concept of appreciation is essential for investing money. Concepts like the time value of money (TVM), and a decent grasp of accounting principles can set you up to make wise investments for your future.
- **Taxes:** A common interaction that most people have with accounting is during tax season. If you've kept up with tracking your expenses and income throughout the year, tax season will be easier.
- **Saving Money:** Saving money is essential for building a budget that enables you to hit your goals and supplement spending, saving and investing.

Understanding how to properly budget, save, invest and prepare for tax season is essential to understanding how accounting functions within our society. Of course, managing personal expenses is not all there is to accounting. Accountants work in several different fields and disciplines, each containing principles and techniques, but you may even use some of them in your day-to-day life.

Financial Accounting

Financial accounting focuses on recording the transactions that a business makes over time. Financial accountants primarily provide analysis of transactions and help businesses to make wiser decisions with their money. In day to day life, you're likely to use a simplified version of this discipline.

Managerial Accounting

Managerial accounting, or management accounting, involves preparing and presenting financial information to decision makers at a company. Typically, a managerial accountant is provided with a set of goals and is tasked with figuring out how those financial objectives can be reached. Households use the basic principles found in this discipline to identify how they will meet certain goals such as retirement, home ownership and starting a family.

Cost Accounting

A subset of managerial accounting, cost accounting is a practice used by managers to identify the total cost of production for a company. This particular practice is slightly less applicable for households, but it is essential for anyone who wants to run a small business.

Tax Accounting

The functions of tax accounting for private individuals and corporations differ greatly, but many of the core principles remain the same. Some tax accountants have a CPA, which is a license awarded by a state or territorial government indicating an individual has passed a test to become a qualified accounting professional.

Forensic Accounting

Forensic accounting blends investigations and audits into a single practice. These professionals are often highly experienced, with most possessing a master's degree or an MBA in accounting. The accountant is typically employed by governments or businesses. It's uncommon for households to use forensic accounting.

Auditing Accounting

Auditing involves detailed tracking and analysis of an intuition's finances. An audit can be initiated for several reasons. For instance, the IRS may audit a company or individual who appears to be engaging in fraud. An internal audit may also be performed by a company in order to uncover inefficiencies. While a full and detailed audit is unlikely to be done by the average person, careful tracking and analysis of your finances can help uncover problem areas in your household's finances.

Public Accounting

Certified public accountants (CPA) are individuals or businesses that work for clients to do a variety of accounting tasks. Public accounting involves everything from preparing taxes, audits, tax advising and consultation services. Most people will likely work with someone who provides these services during tax season.

Government Accounting

Government accounting is the form of accounting that the average person is least likely to utilize. It involves a very particular set of practices, standards and systems that help governments meet the needs of their citizens. Because the practice is directly related to government entities, there is a high level of scrutiny associated with government accounting.

(b) What is the purpose of preparing income statement and balance sheet?

An income statement is a financial statement that shows you the company's income and expenditures. It also shows whether a company is making profit or loss for a given period. The income statement, along with balance sheet and cash flow statement, helps you understand the financial health of your business. The income statement is also known as a profit and loss statement, statement of operation, statement of financial result or income, or earnings statement. An income statement helps business owners decide whether they can generate profit by increasing revenues, by decreasing costs, or both. It also shows the effectiveness of the strategies that the business set at the beginning of a financial period. The business owners can refer to this document to see if the strategies have paid off. Based on their analysis, they can come up with the best solutions to yield more profit. Following are the few other things that an income statement informs.

1. **Frequent reports:** While other financial statements are published annually, the income statement is generated either quarterly or monthly. Due to this, business owners and investors can track the performance of the business closely and make informed decisions. This also enables them to find and fix small business problems before they become large and expensive.
2. **Pinpointing expenses:** This statement highlights the future expenses or any unexpected expenditures which are incurred by the company, and any areas which are over or under budget. Expenses include building rent, salaries and other overhead costs. As a small business begins to grow, it may find its expenses soaring. These expenditures may involve hiring workers, buying supplies and promoting the business.
3. **Overall analysis of the company:** This statement gives investors an overview of the business in which they are planning to invest. Banks and other financial institutions can also analyze this document to decide whether the business is loan-worthy.

There are two main groups of people who use this financial statement: internal and external users. Internal users include company management and the board of directors, who use this information to analyze the business's standing and make decisions in order to turn a profit. They can also act on any concerns regarding cash flow. External users comprise investors, creditors, and competitors. Investors check whether the company is positioned to grow and be profitable in the future, so they can decide whether to invest in the business. Creditors use the income statement to check whether the company has enough cash flow to pay off its loans or take out a new loan. Competitors use them to get details about the success parameters of a business and get to know about areas where the business is spending an extra bit, for example, R&D spends.

The following information is covered in an income statement. The format for this document may vary depending on the regulatory requirements, the diverse business needs and the associated operating activities.

Revenue or sales: This is the first section on the income statement, and it gives you a summary of gross sales made by the company. Revenue can be classified into two types: operating and non-operating. Operating revenue refers to the revenue gained by a company by performing primary activities like manufacturing a product or providing a service. Non-operating revenue is gained by performing non-core business activities such as installation, operation, or maintenance of a system.

Cost of goods sold (COGS): This is the total cost of sales or services, also referred to as the cost incurred to manufacture goods or services. Keep in mind that it only includes the cost of products which you sell. COGS does not usually include indirect costs, like overhead.

Gross profit: Gross profit is defined as net sales minus the total cost of goods sold in your business. Net sales is the amount of money you brought in for the goods sold, while COGS is the money you spent to produce those goods.

Gains: Gain is a result of a positive event that causes an organization's income to increase. Gains indicate the amount of money realized by the company from various business activities like the sale of an operating segment. Likewise, the profits from one time non-business activities are also included as gains for the business. For example, company selling off old vehicles or unused lands etc. Although gain is considered secondary type of revenue, the two terms are different. Revenue is the money received by a company regularly while gain can be accounted for the sale of fixed assets, which is counted as a rare activity for a company.

Expenses: Expenses are the costs that the company has to pay in order to generate revenue. Some examples of common expenses are equipment depreciation, employee wages, and supplier payments. There are two main categories for business expenses: operating and non-operating expenses. Expenses generated by company's core business activities are operating expenses, while the ones which are not generated by core business activities are known as non-operating expenses. Sales commission, pension contributions, payroll account for operating expenses while examples of non operating expenses include obsolete inventory charges or settlement of lawsuit.

Advertising expenses: These expenses are simply the marketing costs required to expand the client base. They include advertisements in print and online media as well as radio and video ads. Advertising costs are generally considered part of Sales, General & Administrative (SG&A) expenses.

Administrative expenses: It can be defined as the expenditure incurred by a business or company as a whole rather than being the ones associated with specific departments of the same company. Some of the examples of administrative expenses are salaries, rent, office supplies, and travel expenses. Administrative expenses are fixed in nature and tend to exist irrespective of the level of sales.

Depreciation: Depreciation refers to the practice of distributing the cost of a long-term asset over its life span. It is a management accord to write off a company's asset value but it is considered a non-cash transaction. Depreciation mainly shows the asset value used up by the business over a period of time.

Earnings before tax (EBT): This is a measure of a company's financial performance. EBT is calculated by subtracting expenses from income, before taxes. It is one of the line items on a multi-step income statement.

Net income: Net profit can be defined as the amount of money you earn after deducting allowable business expenses. It is calculated by subtracting total expenses from total revenue. While net income is a company's earnings, gross profit can be defined as the money earned by a company after deducting the cost of goods sold.

Q. 3 Shown below is the information needed to prepare a bank reconciliation for Data Flow Inc. at Dec 31.

i. **At Dec 31, cash per the bank statement was Rs. 15,981; cash per the company's records was Rs.17,445.**

ii. **Two debt memoranda accompanied the bank statement: service charges for December of Rs.24, and a Rs. 600 check drawn by Jane Hones marked "NSF".**

iii. **Cash receipts of Rs.4353 on December 31 were not deposited until January 4.**

The following checks had been issued in December but were not included among the paid checks returned by the bank: No.620 for Rs.978, No.630 for Rs.2052 and No. 641 for Rs.483.

Required:

1. Prepare bank reconciliation at December 31.

Data Flow Inc.					
Cash Balance according to statement		15,981	Cash Balance according to books		17,445
Add:			Add:		
Deposit in transit		4,353	Proceeds of note collected by bank	6402	
		20,334			
Less:- Outstanding Checks			**Less:-**		23,847
Ch. No. 620	978		NSF check	600	
Ch. No. 630	2052		Bank Service charges	24	
Ch. No. 641	483				
		3,513			624
Adjusted Balance		**23,847**	**Adjusted Balance**		**23,847**

2. Write short note on Imprest Petty Cash system.

An imprest system of petty cash means that the general ledger account Petty Cash will remain dormant at a constant amount. If the amount of petty cash is $100, then the Petty Cash account will always report a debit balance of $100. This $100 is the imprest balance. As long as $100 is adequate for the organization's small disbursements, then the general ledger account Petty Cash will never be debited or credited again. When the currency and coins on hand gets low, the petty cash custodian will request a check to replenish the coins and currency that were disbursed. Since the requested check is drawn on the organization's checking account, the Cash account (not the Petty Cash account) will be credited. The debits will go to the expense accounts indicated by the petty cash receipts, such as postage expense, supplies expense. In other words, the general ledger account Petty Cash is not involved in the replenishment. (Replenishment means getting the total of the currency and coins back to the imprest amount.) The petty cash custodian will cash the check and add the amount to the other cash. Under the imprest system, the petty cash custodian should at all times have a combination of currency, coins, and petty cash receipts that equals $100 (the imprest petty cash balance). Control over the petty cash occurs during the replenishment process. The person approving the check for the petty cash custodian to cash should review the petty cash receipts and attach them to the check request. Control can also occur when an independent person confirms that the petty cash custodian's cash and receipts adds up to the imprest amount.

Q. 4 Zafar keeps his books by single entry. His financial position on 1st January, and 31st December 1989 is as under:

	1st January, 1989	31st December, 1989
Cash in hand	**–**	**1160**
Bank balance	**3600 (Cr.)**	**14,400**
Stock	**19,200**	**20,400**
Accounts Receivable	**30,000**	**37,800**
Accounts Payable	**28,000**	**24,000**
Bills Payable	**1000**	**1400**
Plant & Machinery	**30,000**	**—**
Furniture & Fixture	**9,200**	**—**

During the year Zafar had withdrawn Rs. 12,500 of this sum Rs.9500 had been spent by him for purchasing a delivery van for the business.

Depreciate plant and machinery by 12%, furniture and fixture by 10% delivery van by 8%, and making a reserve of 3% for bad and doubtful debts. Allow interest on capital at 5%.

Required: Ascertain the profit & loss of Zafar for the year, 1989.

Capital at End		99160
Add: Drawing for Periods		12500
		111660
Less: Capital at Start		(30000)
Less: Additional Investment		(9500)
Unadjusted Profit/Loss		72160
Less: Operating Expenses		
Plant & Machinery	30000	
Furniture & Fixture	9200	
Bills Payable	1000	
Total Operating Expenses		(40200)
		31960
Add: Other Income		24000
Adjusted net Profit		55960

Q. 5 Calculate the value of closing stock under LIFO, FIFO and weighted average method?

Purchases **Issues**

Jan 5 100 pieces @ Rs.2.20 each	**Jan 2 150 pieces**
Jan 10 150 pieces @ Rs.2.40 each	**Jan 7 100 pieces**
Jan 20 180 pieces @ Rs.2.50 each	**Jan 12 100 pieces**
	Jan 28 200 pieces

FIFO Method

Date	**Purchases**			**Issues**			**Balance**		
	Qty.	Rate	Value (Rs.)	Qty.	Rate	Value (Rs.)	Qty.	Rate	Value (Rs.)
2 Jan				150	2.0	300	150	2.0	300
5 Jan	100	2.20	220				100	2.20	220
7 Jan				50	2.0	100	50	2.0	100
				50	2.20	110	50	2.20	110
10 Jan	150	2.40	360				150	2.40	360
12 Jan				50	2.20	110	50	2.20	110
				50	2.40	120	50	2.40	120
20 Jan	180	2.50	450				180	2.50	450
28 Jan				100	2.40	240	100	2.40	240
				100	2.50	250	100	2.50	250

LIFO Method

Date	**Purchases**			**Issues**			**Balance**		
	Qty.	Rate	Value (Rs.)	Qty.	Rate	Value (Rs.)	Qty.	Rate	Value (Rs.)
2 Jan				150	2.0	300	150	2.0	300
5 Jan	100	2.20	220				100	2.20	220
7 Jan				100	2.20	220	50	2.0	100
							50	2.20	110
10 Jan	150	2.40	360				150	2.40	360
12 Jan				100	2.40	240	50	2.20	110
							50	2.40	120
20 Jan	180	2.50	450				180	2.50	450
28 Jan				200	2.50	500	100	2.40	240
							100	2.50	250

Weighted Average Method

Date	**Purchases**	**Issues**	**Balance**

	Qty.	Rate	Value (Rs.)	Qty.	Rate	Value (Rs.)	Qty.	Rate	Value (Rs.)
2 Jan				150	2.0	300	150	2.0	300
5 Jan	100	2.20	220				100	2.20	220
7 Jan				100	2.20	220	100	2.20	220
10 Jan	150	2.40	360				150	2.40	360
12 Jan				100	2.40	240	100	2.40	240
20 Jan	180	2.50	450				180	2.50	450
28 Jan				200	2.50	500	200	2.50	450