

Course: Principles of Accounting (8401)

Semester: Spring, 2023

Level: BBA (4 Years)

## Assignment 1

### Q. 1 (a) Importance of Study of Accounting

Accounting is often regarded as the "language of business." It serves as a foundation for various business activities, providing crucial information to stakeholders, including management, investors, creditors, and regulatory bodies. The importance of studying accounting can be summarized as follows:

1. **Financial Decision Making:** Accounting provides financial data that assists in making sound business decisions. Managers can evaluate the financial performance of the company and identify areas for improvement.
2. **Budgeting and Planning:** Businesses use accounting information to create budgets and financial plans for the future. These plans help in setting targets and monitoring progress towards achieving them.
3. **Performance Evaluation:** Accounting allows companies to compare their current performance with past results or industry benchmarks, enabling them to assess their efficiency and effectiveness.
4. **Investment Analysis:** Investors rely on financial statements to evaluate the profitability and stability of a company before making investment decisions.
5. **Compliance and Legal Requirements:** Accurate accounting records are essential for fulfilling legal obligations and regulatory reporting, ensuring transparency and accountability.
6. **Taxation:** Proper accounting ensures that businesses calculate and pay the correct amount of taxes, avoiding penalties and legal issues.

## Q. 1 (b) Main Features of Financial Statements

Financial statements are comprehensive reports that present the financial performance and position of a business. Two essential financial statements are the **Income Statement** and the **Balance Sheet**.

### H2: Income Statement

The Income Statement, also known as the Profit and Loss Statement, provides an overview of a company's revenues and expenses during a specific period. Key features include:

1. **Revenue:** It represents the total income generated from primary business activities, such as sales.
2. **Expenses:** These are the costs incurred to operate the business, including salaries, rent, utilities, and advertising expenses.
3. **Gross Profit:** Calculated by subtracting the cost of goods sold (COGS) from the revenue, it shows the profitability of the core business operations.
4. **Operating Profit:** This is the profit remaining after deducting operating expenses from gross profit.
5. **Net Profit:** Net profit is the final profit figure after considering all expenses, including taxes and interest.

### H2: Balance Sheet

The Balance Sheet provides a snapshot of a company's financial position on a specific date. It consists of:

1. **Assets:** These are the resources owned by the company, including cash, inventory, equipment, and accounts receivable.
2. **Liabilities:** Liabilities are the debts and obligations of the company, such as loans, accounts payable, and accrued expenses.
3. **Equity:** Equity represents the owner's interest in the company and is calculated as Assets minus Liabilities.

## **Q. 2 Short Notes on Selected Topics**

### **H2: Accounting Equation**

The Accounting Equation, also known as the Balance Sheet Equation, is a fundamental principle of accounting. It states that Assets are equal to Liabilities plus Equity. This equation ensures that the balance sheet remains balanced and provides a basis for double-entry bookkeeping.

### **H2: Realization Concept**

The Realization Concept, also called the Revenue Recognition Principle, states that revenue should be recognized when it is earned and realizable, irrespective of when the cash is received. It ensures that revenue is recorded in the period when it is earned, aligning with the matching principle.

### **H2: Cost Concept**

The Cost Concept, also known as the Historical Cost Principle, states that assets should be recorded at their original cost. This principle ensures objectivity and reliability in financial reporting, as historical cost is verifiable.

### **H2: Petty Cash**

Petty Cash is a small amount of cash set aside to cover minor expenses that do not warrant writing a check or making electronic payments. It simplifies reimbursement for small, day-to-day expenses within a company.

## **Q. 3 Preparation of Income Statement and Balance Sheet**

Based on the given trial balance and adjustments, we can prepare the income statement and balance sheet for the year ended on 31st Dec 1989.

## H2: Income Statement

Particulars	Debit Rs.	Credit Rs.
Wages	2,000	
Advertisement		1,200
Commission		2,200
Bad Debts	1,500	
Salaries	1,000	
Electric Charges	500	
Telephone Charges	700	
Rent	1,000	
Return Outward	1,500	
Prepaid Insurance	200	
Unpaid Expenses		400
Interest		200

<b>Particulars</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Closing Inventory		7,500
	7,400	12,400
Gross Profit		2,600
Interest		200
		2,800
Net Profit		2,800

## **H2: Balance Sheet (as on 31st Dec 1989)**

<b>Assets</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Cash	6,650	
Bank	1,500	
Inventory	7,500	
Sundry Debtors	2,700	

Assets	Debit Rs.	Credit Rs.
Machinery	7,500	
Patent Rights	2,000	
	27,850	
Liabilities		2,500
		25,350
Common Stock		10,000
	25,350	25,350

#### Q. 4 Perpetual Inventory System Transactions

##### (a) Journal Entries:

- Jan. 2: Purchased merchandise on credit from Smith Company for Rs.9,200.

Payable                                      9 200                                      9 200

- Jan. 3: Sold merchandise for cash, Rs.22,000. The cost of this merchandise was Rs.14,300.

##### (b) Balance of the Inventory Account:

The balance of the Inventory account at the close of business on January 3 is Rs.84,500 (the beginning balance) minus Rs.14,300 (cost of goods sold) equals Rs.70,200.

### **Q. 5 Transactions Relating to Notes Receivable**

#### **Journal Entries:**

1. Sept. 1: Received from a customer (Party Plus) a nine-month, 9% note for Rs.42,000 in settlement of an account receivable due today.

Copy code

42 000	Receivable	42 000
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2. June 1: Collected in full the nine-month, 9% note receivable from Party Plus, including interest.

the study of accounting is of paramount importance for businesses and individuals alike. It serves as the foundation for financial decision-making and provides essential information for evaluating the financial health of an organization. Furthermore, financial statements such as the Income Statement and the Balance Sheet play a crucial role in assessing a company's performance and position. Understanding these concepts empowers businesses to thrive in the dynamic and competitive world of finance.