Faculty of business studies flashcard

December Part A: Essay Questions (25) 1. Define accounting. Accounting is the information system that measures business activity, progress the data into reports and communicates the results to decision makers. And accounting is the language of business.

The better you understand the language of business the better you can manage your own business. For example, how will you decide whether or not to borrow money? You to consider your income and whether or not you will be able to pay back that loan. 2. Decision makers need accounting information.

Discuss, list and explain 4 types of people who use accounting information. Decision makers need information. The bigger the decision the more information. Here are 4 types of people who use accounting information: 1- Individuals: you use it to manage your cash, to evaluate a new job, and to decide whether or not you can afford a new computer.

2- Businesses: they use it to set goals, to measure progress toward those goals, and to make adjustments when needed. 3- Taxing authorities: Local state and federal governments> income tax is figured using accounting information. Sales tax depends upon company sales. 4- Investors: they often provide the money to get a business going. To decide whether to invest, a person predicts the amount of income to be earned on the investment.

3. In details , explain the difference between Financial Accounting and Management Accounting Financial accounting: provide information for external decision makers, such as investors and lenders. Managements accounting: focuses on information for internal decision makers, such as the

company’s managers. 4. List and explain any four types of Business Organizations.

-Proprietorships: he has a single owner, called the proprietor, who often manage the business. Proprietorships tend to be small retail stores or professional businesses, such as accountants. From the accounting perspective, every sole pro-proctorship is distinct from its owner. 2-Partnerships: A partnership joins two or more individuals as co-owners. Each owner is a partner many retail stores and professional organizations of physicians, attorneys, and accountants are partnerships and most of them are small or medium sized but some are gigantic.

-Corporations: it’s a business owned by stockholders, or shareholders. These are the people who own shares of stock in the business. A business become a corporation when the state approves its articles of incorporation. Unlike a proprietorships and partnerships a corporation is legal entity distinct form its owners. This legal distinction between corporations and theses two can be very important for following reason. If partnerships and proprietorships cannot pay its debts.

Lenders can take the owners personal assets to satisfy the obligations. But if a corporation goes bankrupt lenders cannot take it. The largest business in the United States and other countries are corporation. The coca cola company, for example, has billions of shares of stock owned by many stockholders. 4-Limited liability partnerships and Limited liability companies : its one in which a wayward partner cannot create a large liability for the the other partners. Each partner is liable only for his or her own actions an those under his or her control.

Similarly, business can be organized as a limited liability company. IN an LLC the business and not the members of the LLC is liable for the company debts. Today the most proprietorships and partnerships are organized as LLC and LLP. The limited liability aspect gives these organization one of the chief advantages of a corporation.

5. List any four of the Generally accepted Accounting Principles and discuss in details any two of them 1-The entity concept: an accounting entity is an organization that stands a part as a separate economic unit. We draw boundaries around each entity to keep its affairs distinct form those other entities. Consider Herman lawn service. Assume Hannah Sherman started the business with $500 separately from her personal assets, such as her clothing and automobile. To mix the $500 of business cash with her personal assets would make it difficult to measure the success or failure of Sherman lawn service.

2-the going concern concept: Another reason for measuring assets at historical cost is the going concern concept. This concept assumes that the entity will remain in operation for the foreseeable future. Under the going concern concept. Accountants assume that the business will remain in operation long enough to use existing resources for their intended purpose.

To understand it well, consider the alternative which is to go out of business a store that is closing intends to cease future operations IN that case the relevant measure is current market value. But going out of business is the exception rather than the rule. 3-The cost principle 4-the stable monetary unit concept PART B 50 Marks PART B 75 Marks The Chief Financial Accountant of Geant Mall gives you the The trial balance of Lulu Service Center, on January 1, 2009. | | | Balance | | | Account Title | Debit | Credit | | | Cash | $27500 | | | | Accounts receivable | $6000 | | | Accounts payable | | $ 3500 | | | Common stock | | $30000 | | | Total | $33, 500 | $33, 500 | During January, the business engaged in the following transactions: a. Borrowed $46500 from the bank and signed a note payable in the name of the business. b.

Paid cash of $41500 to acquire land. c. Performed service for a customer and received cash of $6500. d.

Purchased supplies on credit, $1800 e. Performed customer service and earned revenue on account, $4100. f. Paid $2700 on account. g. Paid the following cash expenses: salaries, $4500; rent, $3000; and interest, $1900.

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