

W2 questions

[Finance](#)



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Week 2 Home Assignment of the of the Week 2 Home Assignment Define the process of accounting. Accounting has been defined as the art of interpreting, measuring, recording and communicating the results of economic activities (Meigs & Meigs, 1993). Accounting is needed for maintaining both personal and business records of financial transactions- those that can be measured in money or money's worth. We first determine whether an event is worthy of recording as a financial transaction, then record it in a general or special journal, transfer it to a ledger and a trial balance and then classify it at year end into an income statement or balance sheet item. In an accrual based double entry system, every transaction has both a debit and a credit in the books of accounts.

2. What are the three major divisions in the accounting field?

The three major divisions in the accounting field are (1) Financial Accounting (2) Management Accounting and (3) Tax Accounting. Financial accounting relates to a description and classification of accounts into assets, liabilities, capital, revenues and expenses and their summarization on the Income Statement and Balance Sheet. Management accounting deals with the development or interpretation of accounting information to aid management in making decisions that help in running the business. Tax accounting deals with determining the tax effects of transactions, preparation and filing of tax returns in conformity with the applicable tax laws and procedures.

3. What is the Fundamental Accounting Equation?

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

4. What is the purpose of a balance sheet? What are some examples of typical balance sheet accounts?

The purpose of a balance sheet is to show the financial position of a business

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enterprise on a specific date, usually the end of the year. Accounts are typically classified as belonging either to the income statement or the balance sheet. Usual balance sheet accounts are assets such as Cash, liabilities such as Accounts Payable and owner's equity such as the Capital account.

5. What is the purpose of an income statement? What are some examples of typical income statement accounts?

The purpose of an income statement is to determine whether the business made a profit or loss from its operations over the period, usually a year. Both the income statement and the balance sheet are prepared at the end of the financial year. Usual income statement accounts are revenues such as Sales and expenses such as Advertising Expense.

6. What is the purpose of a statement of cash flows? What are some examples of typical statement of cash flow accounts?

The statement of cash flows shows how the cash in a business was generated and how it was spent over the financial year. This can be the result of operating, investing and financing activities. Some examples of typical cash flow accounts are Depreciation, Interest and Dividends Received and Cash Paid for Interest and Income Taxes.

7. Based on the financial information below, prepare an income statement and a balance sheet for Joe's-Fly-by-Night Oil Company for the year ended December 31, 2011. Unless otherwise indicated, assume all information below is either for the year 2011 or as of December 31, 2011.

Accounts Receivable.....	\$3, 000 BS
Accumulated Depreciation.....	\$12, 000 BS
Cost of Goods Sold.....	\$4, 000 IS

Income Tax Expense.....	\$1, 000 IS
Cash.....	\$5, 000 BS
Sales.....	\$10, 000 IS
Equipment (gross).....	\$27, 000 BS
Selling, General, & Administrative Expenses.....	\$3, 000 IS
Common Stock (1, 000 shares).....	\$7, 000 BS
Accounts Payable.....	\$17, 000 BS
Retained Earnings.....	\$13, 000 BS
Interest Expense.....	\$200 IS
Inventory.....	\$17, 000 BS
Long-Term Debt.....	\$3, 000 BS
Dividends Declared and Paid.....	\$600 IS

NOTE: See attached Excel Sheet for this solution.

References

Meigs, R. F & Meigs, W. B. (1993). Accounting- The Basis for Business Decisions, 9th ed. McGraw Hill.