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Question 01: Define accounting and objectives of financial accounting.

Accounting: Meaning and Objectives of Accounting!
Meaning:

What is accounting? Different scholars and Institutes have defined accounting differently. The important among them are as follows:

According to Smith and Ashburn, Accounting is the science of recording and classifying business transactions and events, primarily of a financial character and the art of making significant summaries, analysis and interpretations of these transactions and events and communicating results to persons who must take decisions or form judgement."

The Committee on Terminology, appointed by the American Institute of Certified Public Accountants defined accounting as, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

In fact, this is the popular definition of accounting that outlines fully the very nature and scope of accounting activity. The sum and substance of accounting, thus, is from the recording of transactions to communicating the results thereof to the concerned parties.

Objectives of Accounting:

The following are the main objectives of accounting:

1. To maintain full and systematic records of business transactions:

Accounting is the language of business transactions. Given the limitations of human memory, the main objective of accounting is to maintain 'a full and systematic record of all business transactions.

2. To ascertain profit or loss of the business:

Business is run to earn profits. Whether the business earned profit or incurred loss is ascertained by accounting by preparing Profit & Loss Account or Income Statement. A comparison of income and expenditure gives either profit or loss.

3. To depict financial position of the business:

A businessman is also interested in ascertaining his financial position at the end of a given period. For this purpose, a position statement called Balance Sheet is prepared in which assets and liabilities are shown.

Just as a doctor will feel the pulse of his patient and know whether he is enjoying good health or not, in the same way by looking at the Balance Sheet one will know the financial health of an enterprise. If the assets exceed liabilities, it is financially healthy, i.e., solvent. In the other case, it would be insolvent, i.e., financially weak.

4. To provide accounting information to the interested parties:

Apart from owner of the business enterprise, there are various parties who are interested in accounting information. These are bankers, creditors, tax authorities, prospective investors, researchers, etc. Hence, one of the objectives of accounting is to make the accounting information available to these interested parties to enable them to take sound and realistic decisions. The accounting information is made available to them in the form of annual report.

Question 02: Differentiate between financial accounting and cost accounting.

Point of Distinction	Financial Accounting	Cost Accounting
1. Purpose	It provides information about the profit and loss and financial position to owner and other outside parties.	It provides information to management for proper planning, operation, control and decision making.
2. Form of Accounts	These accounts are kept in such a way as to meet the requirement of Companies Act and Income Tax Act.	These accounts are generally kept voluntarily to meet the requirements of management. But now Companies Act has made it obligatory to keep cost records in some manufacturing industries.
3. Recording	According to the nature of expenses.	According to the purpose for which the cost are incurred.

4. Control	It lays emphasis on recording aspect without attaching any importance to control.	It provides a detailed system of control for material labor and overhead cost with the help of standard costing and budgetary control.
5. Periodicity of Reporting	It reports operating results and financial position usually at the end of the year.	It gives information through cost reports to management as and when required.
6. Analysis of Profit	They are independent in nature and discloses the net profit or loss.	They are only a part of financial accounts and discloses profit or loss of each product, job or services.
7. Reporting of Costs	The cost are reported in aggregate in final accounts.	The cost are broken down on a unit basis in cost accounts.
8.Information	Monetary information is only used.	Non-monetary information like units are also used.
9. Fixation of selling price	They are not maintained with the object of selling price.	They provide sufficient data for fixation of selling price.
10. Figures	Deals mainly with actual facts and figures.	Deals partly with facts and figures and partly with estimates.

Question 03: Make entries in general journal from the following transactions.

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DATE	PARTICULARS	P/R	DEBIT	CREDIT
(a)	Cash Furniture Capital (To record the investment by owner)		10,000 6,000	16,000
(b)	Purchases Cash Capital (To record the goods purchased for cash)		6,000	6,000
(c)	Purchases Accounts payable (Khalid) (To record the goods purchased from Khalid on credit)		2,000	2,000

(d)	Cash Sales (To record the goods sold for cash)		8,000	8,000
(e)	Accounts receivable (Rashid) Sales (To record the goods sold on account)		4,000	4,000
(f)	Accounts payable (Khalid) Purchase return and allowances (To record the goods return to the supplier)		300	300
(g)	Sales return and allowances Accounts		200	200

	receivable (Rashid) (To record the goods return by customer)			
(h)	Shop rent expense Cash (To record the shop rent paid for cash)		150	150
(i)	Bank Cash (To record the open bank account)		10,000	10,000
(j)	Drawings Bank (To record the withdrew for personal use)		4,000	4,000

