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Ans 1) d. identification, recording, communication

Ans 2) b. Unlimited personal liability for stockholders.

Ans 3) Monetary unit assumption states that only transactions which can be measured in monetary terms are recorded in a company's books of accounts. If a transaction cannot be expressed in dollar value, it should not be included in the company's financial books. It is considered useless for financial accounting purposes.

The monetary unit is an easy and universally recognized form of communicating financial information. It is an effective basis of recording, reporting and analyzing financial data which can help businesses make rational decisions.

Monetary unit Assumption Example

Let's suppose XYZ Limited bought a plot of land in 1992 at a cost of \$50,000. It recorded the newly purchased land with a value of \$50,000 in its books. Now in 2019 XYZ Limited bought an adjacent plot of land at a cost of \$300,000. It will record both plots of land at an amount of \$350,000 ($\$50,000 + \$300,000$).

There is a significant difference in the purchasing power between 1992

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Ans 3) and 2019 but under the monetary unit assumption, it is ignored.

The economic Entity Assumption states that the company or business entity is separate and distinct from its owners, managers and employees. It is also known as business entity Assumption, Accounting Entity Assumption, separate Entity Assumption

Under the Economic Entity Assumption the accounting records of a business must be kept separate from the personal financial records of its owner or employees. Mixing personal transactions with the company's business transactions will negatively affect the fair presentation of information in the financial statements and lead to distorted amounts

A company such as a partnership and a corporation, is considered a juridical person i.e., a separate living entity unto itself. This means that it can own assets incur liabilities and enter into contracts under its registered name. Therefore personal assets personal liabilities and other personal transactions of the owner managers or employees are not accounted in the financial statements of the business

In the case of a sole proprietorship, the law considers the business and the proprietor as a single entity where in the liabilities of the business may extend to the personal properties of its owner. The proprietor also reports the income of the business in his or her personal income tax return rather than on a separate tax return. However at the viewpoint of accounting the owner and the proprietorship business are still considered as two separate entities with their transactions being accounted for separately

The economic entity assumption also assumes that if an owner owns two or more companies each company should maintain separate accounting records and financial statements. This also applies to a parent or holding company and its subsidiary.

Ans 3) Example: Mr A opens a laundromat business by investing \$50,000 and 10 sets of commercial washers and dryers under the registered name of the business Laundry Spree. He also has ~~the~~ \$10,000 remaining in his personal bank account and an unpaid personal loan amounting to \$500.

The financial statements of Laundry Spree should only show cash amounting to \$30,000 and the value of the washers and dryers. The balance in Mr. A's personal bank account and his unpaid personal loan should not be included in the financial statements of Laundry Spree because the assets and liabilities of his business is separate from his personal assets and liabilities.

Ans 4) The accounting equation states that a company's total assets are equal to the sum of its liabilities and its owners' equity.

This straight forward relationship between assets, liabilities and equity is considered to be the foundation of the double-entry accounting system. The accounting equation ensures that the balance sheet remains balanced. That is each entry made on the debit side has a corresponding entry (or coverage) on the credit side. The accounting equation is also called the basic accounting equation or the balance sheet equation.

The financial position of any business, large or small, is based on two key components of the balance sheet: assets and liabilities, owners equity, or share holders' equity, is the third section of the balance sheet.

Assets: Assets include cash and cash equivalents or liquid assets, which may include Treasury bills and certificate of deposits (CDs).

Accounts receivable list the amounts of money owed to the company by its customers for the sale of its products. Inventory is also considered an asset.

The major and often largest value assets of most companies are that company's machinery, buildings, and property. These are fixed assets that are usually held for many years.

Ans 4) Liabilities: Liabilities are debts that a company owes and costs that it needs to pay in order to keep the company running.

Rent is a liability, whether it is a long-term loan or a bill that is due to be paid. Costs include rent, taxes, utilities, salaries, wages, and dividends payable.

owner's equity: The owner's equity number is a company's total assets minus its total liabilities.

It can be defined as the total number of dollars that a company would have left if it liquidated all of its assets and paid off all of its liabilities. This would then be distributed to the owner.

Retained earnings are part of owner equity. This number is the sum of total earnings that were not paid to owner's as ~~dividends~~ dividends.

Ans 5) a) Tabular summary of the transaction.

Sl No	Assets			=	Liabilities + Equity			Remarks
	Cash	Accounts Receivable	Equipment		Notes payable	Accounts payable	Capital	
(i)	11000	—	—	=	—	—	11000	Investment
(ii)	—	—	3000	=	—	3000	—	
(iii)	(800)	—	—	=	—	—	(800)	Rent exp
(iv)	700	—	—	=	700	—	—	
(v)	1500	—	—	=	—	—	1500	Service revenue
(vi)	(1900)	—	—	=	—	—	(1500) (300) (100)	salaries utilities Telephone
(vii)	—	2000	—	=	—	—	2000	Service revenue
(viii)	(1000)	—	—	=	—	—	(1000)	Drawings
Total	20500	2000	3000	=	700	3000	11800	
	15500			=	15500			

Ans 5) b)

Journal

Date	Particulars	L.F	Debit (TK)	Credit (TK)
2020 Jan i	Cash --- Dr Capital --- Cr (Capital bought in cash)		11000	11000
ii	Office Equipment --- Dr Accounts payable --- Cr (Purchase office equipment on account)		3000	3000
iii	Rent expense --- Dr Cash --- Cr (Rent paid in cash)		800	800
iv	Cash --- Dr Notes payable --- Cr (Bank loan taken in cash against notes)		700	700
v	Cash --- Dr Service Revenue --- Cr (Service revenue earned in cash)		1500	1500
vi	Salaries Expense --- Dr Utilities Expense --- Dr Telephone Expense --- Dr Cash --- Cr (Expense paid in cash)		500 300 100	900
vii	Accounts receivables --- Dr Service Revenue --- Cr (Service revenue earned on account)		2000	2000
viii	Drawings --- Dr Cash --- Cr (Cash withdrawn for personal use)		1000	1000
			20900	20900

cash accounts for the month of January

Date	Explanation	Ref	Debit (TK)	Credit (TK)	Balance
(i)	capital		11000	-	11000
(iii)	Rent expense			(800)	10200
(iv)	Notes payable		700	-	10900
(v)	service revenue		1500	-	12400
(vi)	salaries expense		-	(500)	11900
	utilities expense		-	(300)	11600
	Telephone expense		-	(100)	11500
(viii)	Drawings			(1000)	10500

Ans 5) b) Trial balance as on January 31, 2020

Sl. No	Head of accounts	L.F	Debit Balances	Credit Balances
	Cash		10500	-
	Capital		-	11000
	Office equipment		3000	-
	Accounts payable		-	3000
	Rent expense		800	-
	Notes payable		-	700
	Service revenue		-	3500
	Salaries expense		500	-
	Utilities expense		300	-
	Telephone expense		100	-
	Accounts receivable		2000	-
	Drawings		1000	-
	Total		18200	18200

Income Statement for the month of January 2020

Details	TK	TK
Service Revenues		3500
<u>less: Expenses</u>		
Rent expenses	800	
Salaries expenses	500	
Utilities expenses	300	
Telephone expenses	100	
Total expenses		(1700)
Net Income		<u>1800</u>

Ans 5) b) Equity statement for the month of January 2020

Details	TK
Capital at the beginning	—
Investment during January	11000
Add: Net Income for January	1800
Total	12800
Less: Drawings	1000
Capital at the End	11800

Balance sheet as on January 31, 2020

<u>Assets</u>		
<u>Fixed Assets:</u>		
Equipments		3000
<u>Current assets:</u>		
Cash	10500	
Accounts Receivable	2000	
Total current assets		12500
Total Assets		15500
<u>Liabilities and Equity</u>		
Long term liabilities		
—		
<u>Current liabilities</u>		
Notes payable	700	
Accounts payable	3000	
Total current liabilities		3700
Capital at the End		11800
Total Liabilities and Equity		15500