

Q: What is GAAP?

The accounting profession has developed standards that are generally accepted and practiced universally. This common set of standards is called generally accepted accounting principles (GAAP). These standards assist as a guideline reflecting how to report economic events.

Q: Briefly explain about the elements of financial statements

Assets: Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Example: Cash, Equipment etc.

Liabilities: Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Example: Accounts Payable, Bank loan etc.

Equity: The residual interest in the assets of an entity after deducting its liabilities. In a business enterprise, the equity is the ownership interest. Example: Common Share

Investment by owner: Increase in net assets of a particular business entity resulting from transfers to it from other entities of something of value to obtain or increase ownership interests or equity in it. Example: Assets invested by owner.

Distribution to owner: Decreases in net assets of a particular enterprise resulting from transferring assets, rendering services, or incurring liabilities by the enterprise to owners. Distribution to owner decreases ownership interests or equity in an enterprise.

Comprehensive income: Decreases of equity (Net assets) of an entity during a period from transactions and events and circumstances from non-owner sources. It includes all changes in owner's equity except investment by owner and distribution to owner. Example: Gain and losses from foreign currency transaction.

Revenues: Inflows or other enhancements of assets of an entity or settlement of its liabilities (Or a combination of both) during a period from delivering or producing good, rendering services. Or other activities that constitute the entity's ongoing major or central operations. Example: Sales, Dividends.

Expenses: Outflows or other using up of assets or incurrences of liabilities (Or a combination of both) during a period from delivering or producing good, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations. Example: Salaries, Rent

Gains: Increase in equity (net assets) from peripheral or incidental transactions of an entity and from all other events and circumstances affecting the entity during a period except those that result from revenues or investments by owners. Gain from selling a jewelry more than its book value.

Losses: Decreases in the equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a period except those resulting from expenses or distribution to owners.

Q: Briefly explain about the basic accounting equation.

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

The relationship is the basic accounting equation. Assets must equal the sum of liabilities and owner's equity. Liabilities appear before owner's equity because they are paid first if a business is liquidated.

Q: Transaction analysis.

The following examples are business transactions for a IT organization named Orbit. During the first month of their operations.

Investment by owner Md. Jahid Arefin on July 1, 2024 as investment amounting Tk. 12,000.

July: 3 Purchase of equipment Tk. 5,000

July: 7 Purchase supplies Tk. 2,000. On which Accounts Payable is Tk. 1,000

July: 10 Received 3,000 for providing maintenance service.

July: 15 Purchase of Advertising on Credit Tk. 500

July: 17 Provided services to a customer for Tk. 4000. Among the total 2,000 received as cash and the rest on account.

July: 20 Orbit paid Tk. 2,000 as rent, 1,500 as salary and 500 as electricity bill.

July: 24 Tk. 250 of advertisement is paid.

July: 27 Tk 1,000 is received for the service provided on July 17.

July: 30 Mr. Jahid withdraw Tk. 1,000 in cash to meet personal expenses.

Prepare a tabular Summary of the transactions.

Month	Assets				=	Liabilities+	Owner's Equity				Explanation
July	Cash+	Equipment+	Supplies	A/R		Accounts Payable	Owner's Capital-	Owner's drawings+	Revenue-	Expenses	
1	12,000						12,000				Initial Investment
3	(5,000)	5,000									
7	(1,000)		2,000			1,000					
10	3,000								3,000		
15						500				(500)	Ser. Rev.
17	2,000			2,000					4,000		Adv. Exp.
20	(4000)									(2,000)	Ser. Rev.
										(1,500)	Rent exp.
										(500)	Salary exp.
24	(250)					(250)					Utilities exp.
27	1,000			(1,000)							
30	(1000)							(1000)			Drawings
	6,750	5,000	2,000	1,000		1,250	12,000	(1,000)	7,000	(4,500)	
	<u>14,750</u>				=	<u>14,750</u>					

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