Assessment 1 Total Marks: 30

Answer the following questions:

1. Define 'Accounting'. What are the primary objectives of accounting.**(10)**

   Accounting is the art of recording, classifying and summarizing financial transactions and events & interpreting the results which will help stakeholders to take well informed-decisions.

   Objectives of Accounting as the following:

   - To keep systematic record-business may involve in many financial transactions on a daily basis, so accounting keeps track of these transactions by recording them in books of accounts.

   - To ascertain the results of the operation - Accounting ascertains any profit earned or Loss incurred by a business during specific period through Trading Profit and Loss account which match the revenue earned with the expenditure during the same period to calculate the profit or loss.

   - To ascertain the financial position of the business-financial statements reflect the financial position of the business in term of cash, assets, liabilities, capital etc. however financial statements show the financial health of the enterprise.

   - To portray the liquidity position - A business may obtain or spend cash for many Purposes(lending, repayment of loans, capital transactions, paying cash dividends to shareholders and distribution of resources among owners),such information beside other factors determine an entity's liquidity and solvency, a business financial health can be portrayed in financial reports.

   - To protect business properties **-** Accounting keeps an updated record of the Business's assets and liabilities to prevent false claims against the entity's properties.

   - To protect business properties **-**Accounting keeps an updated record of the Business's assets and liabilities to prevent false claims against the entity's properties.

   - To satisfy the requirements of law **-** Laws (e.g. Companies Act, Societies Act, Sales Tax Act, Income Tax Act etc.), govern business operations, require companies, public trusts & other business entities to maintain up to date accounts.

2. What is accounting cycle? Outline the basic steps included in accounting cycle. **(10)**

a) Transactions

Financial transactions may include sale of an asset, acquiring new equipment or any other activity which may involve an exchange of the business's asset. So the accounting cycle starts from these transactions.

b) Journal Entries

When financial transactions occurred, they are recorded in a chronological order in the journals (books of original entry and they contain a record of business transactions along with the date of the transaction, kind and amount of the transaction).

c) Posting

Since the General ledger contains a summary of all business accounts, so transactions recorded in journals are being posted to the relevant accounts in the general ledger.

d) Trial Balance

A trial balance is prepared at the end of an accounting period, which may be a month, a quarter or a year depending on the business's practice.

e) Worksheet

If entries in trial balance do not balance (e.g. inflows do not equal outflows), so corrections and adjustments are needed where these adjustments are recorded in worksheets.

An adjusted trial balance is made to ensure that all accounts are in balance.

f) Adjusting Journal Entries

After recognizing errors in the trail balance & processing correction entries, the adjusted trial balance will be prepared.

Adjusting entries are not made until all corrections are made and trial balance is prepared.

g) Financial Statements

Profit and loss account and balance sheet are prepared using the correct and adjusted accounts.

h) Closing the Books

Revenue and expense accounts are closed at the end of an accounting cycle and a new cycle begins with zero carry forward balances in accounts.

Activity **(10)**

List the various accounting activities that an organization under takes and give reasons for each as to why that particular activity is performed in the organizations.

Activities:	**Reasons**
1. Data Creation and Collection	1. Basis for financial statements &accounting records.
2. Data Evaluation	2. Controls business via budgets and standard costs.
3. Analyzing and interpreting data	3.Elaborate reports based on extensive research.
4. Audit.	4. Keep track of financial flows & prevent fraud
5.Data reporting	5. Enable external & internal for making well informed decisions.
6. Financial evaluation.	6. for forecasting financial position & performance of a business entity.