TEST1 & TEST2 BANP201

Test 1

Question 2

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Question 3

2.

- **Stock Markets - Discussion**: Stock markets are platforms where shares of publicly listed companies are bought and sold. They facilitate capital raising for businesses and provide investment opportunities for individuals and institutions. Stock markets are indicators of economic health and are influenced by a wide range of factors including economic data, corporate performance, and geopolitical events.
- **Commodity Markets** - **Discussion**: Commodity markets deal with the trading of primary goods such as oil, gold, silver, copper, agricultural products, and more. These markets are essential for price discovery and risk management. They also enable producers and consumers to hedge against price volatility.
- **Real Estate Markets** - **Discussion**: Real estate markets involve the buying, selling, and leasing of properties. These markets are influenced by factors such as interest rates, economic conditions, and government policies. Real estate is considered a tangible asset and is often used as a hedge against inflation.
- **Bond Markets - Discussion**: Bond markets are where debt securities are issued and traded. Governments and corporations issue bonds to raise capital, and investors buy them for their relatively stable returns. Bond markets are critical for the functioning of economies, providing funding for public projects and corporate expansion.

3.

a) **1. Manual Accounting Systems**

- **Example**: Ledger books and journals

b) 2. Single-Entry Accounting Systems

- **Example**: Small business cash books

c) 3. Double-Entry Accounting Systems

- **Example**: QuickBooks, Sage 50

4.

1. Noise from accounting rules
2. Forecast errors
3. Manager's accounting choices

Chapter 3 pg 7

5.

1. Assets

- **Definition**: Assets are resources controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- **Example**: Cash, inventory, property, plant and equipment, accounts receivable.

2. Liabilities

- **Definition**: Liabilities are present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.
- **Example**: Loans payable, accounts payable, accrued expenses, bonds payable.

3. Equity

- **Definition**: Equity is the residual interest in the assets of the entity after deducting liabilities. It represents the ownership interest held by shareholders in the entity.
- **Example**: Share capital, retained earnings, other reserves (such as revaluation reserve or foreign currency translation reserve).

6.

Threat of New Entrants

- **Description**: The potential for new companies to enter an industry and compete with established firms.
- **Impact**: When barriers to entry are low, the threat of new entrants is high, leading to increased competition. Existing firms may need to lower prices, improve quality, or increase marketing efforts to maintain their market position. High barriers to entry, such as significant capital requirements, strong brand identities, and regulatory constraints, can limit the number of new competitors and reduce the intensity of competition.

Bargaining Power of Buyers

- **Description**: The power that customers have to influence prices and quality.
- **Impact**: When buyers have significant bargaining power, they can demand lower prices, higher quality products, or additional services, increasing competition among firms to meet these demands. Factors that increase buyer power include the availability of alternative suppliers, low switching costs for buyers, and the importance of the buyer to the supplier's business.

Bargaining Power of Suppliers

- **Description**: The influence that suppliers can exert on the price and quality of inputs.
- **Impact**: When suppliers have strong bargaining power, they can charge higher prices or limit the quality of goods and services, increasing costs for firms and intensifying competition. Supplier power is affected by factors such as the uniqueness of the supplier's product, the number of available suppliers, and the cost of switching between suppliers.

7.

o Price
o Product

8.

6. Tax Considerations

- **Description**: Tax regulations and the desire to minimize tax liabilities can also influence accounting disclosures.
- **Incentive**: Managers might manipulate earnings to reduce taxable income and thus lower the company's tax burden.

- – Debt covenants
- – Compensation contracts
- – Contests for corporate control
- – Tax considerations
- – Regulatory considerations
- – Capital market and stakeholder considerations
- – Competitive considerations

Test 2

Question 1

1) – a
2) – a
3) – a
4) – d
5) – b
6) –
7) – a
8) – c

Question 2

1)

1. Cash and Cash Equivalents

- **Description**: Cash in hand, savings accounts, and other liquid assets that can be easily converted to cash.
- **Future Benefits**: Provides immediate liquidity and can be used for everyday expenses, emergencies, or investment opportunities.

3. Real Estate

- **Description**: Property ownership including residential homes, rental properties, and land.
- **Future Benefits**: Can provide rental income, potential appreciation in value, and a place to live.

2.

• Accurate Financial Reporting: Adjustments help present a more accurate and reliable picture of a company's financial position. This is crucial for stakeholders, including investors, creditors, and management, who rely on financial statements for decision-making.

• Compliance with Accounting Standards: Many accounting standards and regulations, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), require businesses to make adjustments to ensure adherence to specific accounting rules and principles.

• Comparability: Adjusted financial statements enhance the comparability of financial data across different periods, enabling stakeholders to analyse trends and make informed decisions based on consistent and reliable information

3.

• Complexity: The process of making accounting adjustments can involve a detailed analysis of various accounts and transactions. This complexity may increase the likelihood of errors if not handled carefully.

• Time-Consuming: Adjustments often require significant time and effort, particularly for businesses with intricate financial transactions. This can be a challenge for companies operating in fast-paced environments.

4.

Accrued Revenues - Accrued revenue is the amount of money earned in one accounting period that isn't counted until a subsequent period.

Accrued Expenses - After getting a handle on how accumulated income works, adjusting incurred expenses should be a breeze. They are the costs you incurred in one time period but paid for in another.

Deferred Revenues - Deferred income occurs when a customer pays you in advance. It's essential to report the income in the month you provide the service and incur the prepaid costs, even if you're being paid now.

Prepaid Expenses - Similar to delayed income, prepaid expenses may be used in the future. Instead of deducting the cost over the period it pertains to, and you make a one-time payment in this situation.

Depreciation Expenses - Depreciation is the practice of writing off the cost of an item over a more extended period than the asset's useful life. This is generally done for expensive acquisitions like machinery, automobiles, and structures. You will see a change to the overall cumulative depreciation amount on your balance sheet after any accounting Period in which depreciation occurred. Depreciation is an ongoing cost that will be shown as an expenditure each time it is paid.

5.

– The firm owns/controls the economic resource
– Future economic benefits can be measured with reasonable certainty
– Fair values of assets fall below their book values
– Fair value estimates are accurate

6.

– Understated depreciation/amortization of non-current assets
– Delayed write-downs of current or non-current assets

– Understatement of allowances
– Accelerated recognition of revenues

7.

– Operating management
– Investment management
– Financing strategy
– Dividend policy

8.

– Ratio analysis – to assess how various line items in financial statements relate to each other and to measure relative performance.

– Cash flow analysis – to evaluate liquidity and the management of operating, investing, and financing activities as they relate to cash flow.

9.

Step 1: Predict changes in environmental and firm-specific factors.
Step 2: Assess the relationship between step 1 factors and financial performance.
Step 3: Forecast condensed financial statements.

10.

• Time series model - Uses historical data as the key to reliable forecasting. Visualize patterns of data better when you know how the variables interact in terms of hours, weeks, months or years.

• Econometric model - Forecast changes in supply and demand, as well as prices.

• Judgmental forecasting model - Utilize subjective and intuitive information to make predictions. For instance, there are times when there is no data available for reference. Launching a new product or facing unpredictable market conditions also creates situations.

• The Delphi method - This series of steps is based on the Delphi method, which is about the Oracle of Delphi. It assumes that a group's answers are more useful and unbiased than answers provided by one individual.