2024-07-26 Cousins Exam Prep

Financial Accounting II, Term 4

- Term 4 April 2024
- Final Exam, Date 26 July 2024
- 100 marks in total

Ideal Questions (5 marks per item of the ideal questions)

(1) What are the advantages and disadvantages account receivables to a firm?

> > **Accounts receivable** represent amounts owed to a company by its customers for goods or services sold on credit.
>
> **Advantages:**
> **- Increased sales:**
> Offering credit terms can attract customers and increase sales.
>
> **- Improved cash flow:**
> While not immediate, accounts receivable contribute to overall cash flow.
>
> **- Competitive advantage:**
> Credit terms can give a company a competitive edge.
>
> **Disadvantages:**
> **- Credit risk:**
> There's a risk of customers defaulting on their payments.
>
> **- Tied-up capital:**
> Money invested in accounts receivable is unavailable for other uses.
>
> **- Administrative costs:**
> Managing accounts receivable requires time and resources.
>
> **- Potential for bad debts:**
> Some customers may not pay, resulting in losses.

(2) What are the differences between Allowance Method and Direct Write-off Method for uncollectible account receivable?

> > Both methods account for uncollectible accounts, but they differ in timing and approach.
>
> **Allowance Method:**
>
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> - ***Matching principle***:
>                 Expenses (bad debts) are matched with related revenues.
>
> - ***Estimate of uncollectible accounts***:
>                 A company estimates the amount of bad debts and creates an allowance for doubtful accounts.
>
> - ***Matching principle***:
>                 Better reflects the true income of the period.
>
> - **Generally Accepted Accounting Principles (GAAP) compliant.**
> ```

(3) What is the definition of a plant asset? What is different type of plant assets? How different between a plant asset and a current asset?

> > A **plant asset** (or fixed asset) is a long-term asset with a physical form that is used in the operations of a business and is not intended for sale.
>
> **Types of plant assets:**
> **- Land:**
> The earth's surface and anything permanently attached to it.
>
> **- Buildings:**
> Structures used for business operations.
>
> **- Equipment:**
> Machinery, furniture, and other assets used in operations.
>
> **- Vehicles:**
> Cars, trucks, and other transportation assets.
>
> **Difference between plant and current assets:**
>
> - **Plant assets:** Have a long useful life, are not readily converted to cash, and are used in operations.
> - **Current assets:** Expected to be converted to cash within one year, are more liquid.

(4) How to allocate cost of a plant asset into an expense? Give your explanations to each method of the cost allocation of a plant asset.

> > Depreciation is the process of allocating the cost of a plant asset over its useful life.
>
> **Methods of depreciation:**

- Straight-line method: Allocates equal amounts of depreciation expense each year.

$$\frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}} = \text{Annual Depreciation}$$

> ```
> - Units-of-production method: Allocates depreciation based on the asset's usage.
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> - Declining-balance method: Allocates a higher amount of depreciation in the early years and lower amounts in later years.
> ```

(Book value at beginning of year) x Depreciation rate = Depreciation expense

Choice of method: Depends on factors like asset usage, company policy, and tax implications.

(5) How many forms of business company are there in general?
(6) Give the definition of partnership. How many forms of partnership are there? Give your explanation to each form of partnership.
(7) What are the advantages and disadvantages of each form of the partnership?
(8) What is corporation? How many forms of corporation are there?
(9) How different between corporation and partnership? Give your explanation and