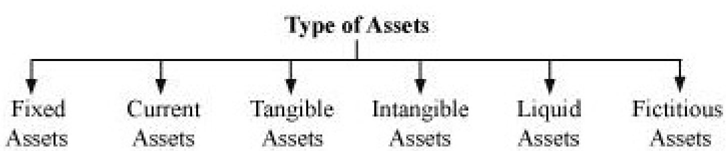
Q5. Describe the informational needs of external users.
Answer : There are various external users of accounting who need accounting information for decision making, investment planning and to assess the financial position of the business. The various external users are given below.
1. Banks and other financial institutions- Banks provide finance in form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.
2. Creditors- These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and receiving services; hence, the creditors require information about credit worthiness of the business.
3. Investors and potential investors- They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.
4. Tax authorities- They need information about sales, revenues, profit and taxable income in order to determine the levy various types of tax on the business.
5. Government- It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policies measures and to address various economic problems like employment, poverty etc.
6. Researcher- Various research institutes like NGOs and other independent research institutions like CRISIL, stock exchanges, etc. undertake various research projects and the accounting information facilitates their research work.
7. Consumer- Every business tries to build up reputation in the eyes of consumers, which can be created by the supply of better quality products and post-sale services at reasonable and affordable prices. Business that has transparent financial records, assists the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products and thus helps in repo building of the business.
8. Public- Public is keenly interested to know the proportion of the profit that the business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc. This information is also revealed by the profit and loss account and balance sheet of the business.

Q6. What do you mean by an asset and what are different types of assets?
Answer :Any valuable thing that has monetary value, which is owned by a business, is its asset. In other words, assets are the monetary values of the properties or the legal rights that are owned by the business organisations.



Fixed Assets- These are those assets that are hold for the long term and increase the profit earning capacity and productive capacity of the business. These assets are not meant for sale, for example, land, building machinery, etc.
Current Assets- Assets that can be easily converted into cash or cash equivalents are termed as current assets. These are required to run day to day business activities; for example, cash, debtors, stock, etc.
Tangible Assets- Assets that have physical existence, i.e., which can be seen and touched, are tangible assets; for example, car, furniture, building, etc.
Intangible Assets- Assets that cannot be seen or touched, i.e. those assets that do not have physical existence, are intangible assets; for example, goodwill, patents, trade mark, etc.
Liquid Assets- Assets that are kept either in cash or cash equivalents are regarded as liquid assets. These can be converted into cash in a very short period of time; for example, cash, bank, bills receivable, etc.
Fictitious Assets- These are the heavy revenue expenditures, the benefit of whose can be derived in more than one year. They represent loss or expense that are written off over a period of time, for example, if advertisement expenditure is Rs 1,00,000 for 5 years, then each year Rs 2,00,000 will be written off.

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