

Basic Financial Accounting



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Accounting

- ▶ Accounting is language of business.
- ▶ Communicate the result of business operations and its other aspects.
- ▶ Accounting is an art of recording classifying and summarizing in a significant manner and in terms of money transactions and events which are in part at least of financial character and interpreting the results thereof.



The Basic Accounting Equation

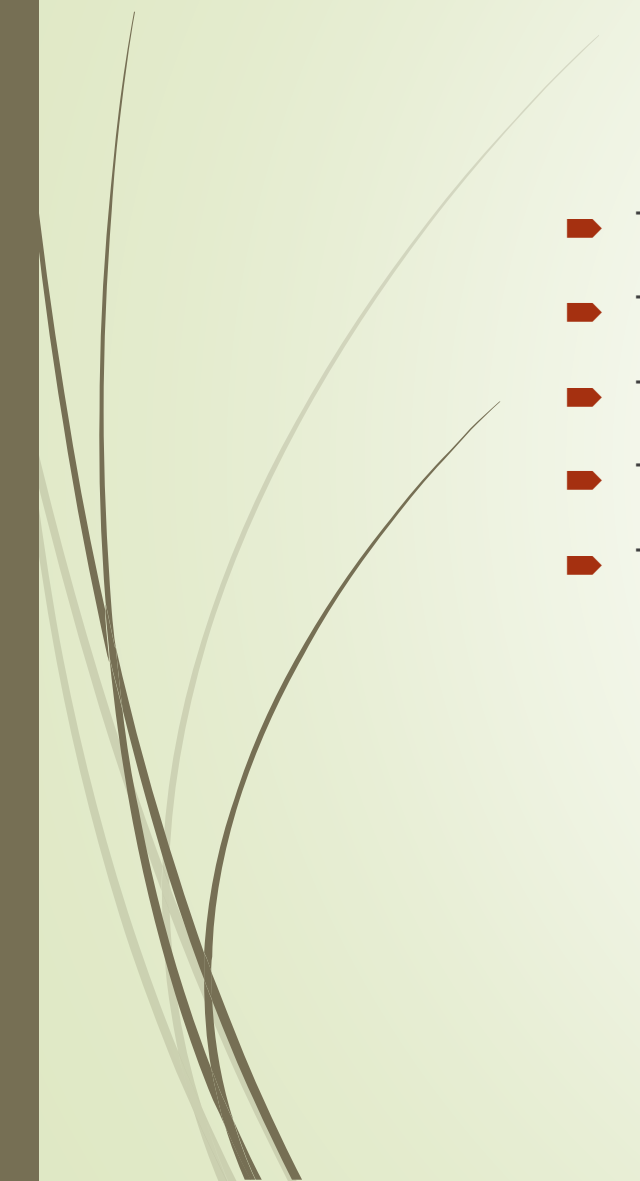
- ▶ Financial accounting is based upon the accounting equation

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

- ▶ The balance sheet is an expanded expression of the accounting equation



Purpose of accountancy

- To keep a systematic record
 - To ascertain the results of operations
 - To ascertain financial position of business.
 - To facilitate rational decision making
 - To satisfy requirement of law and useful in many respects.
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Assets

- ▶ Assets are valuable resources that are owned by a firm.
- ▶ They represent probable future economic benefits and arise as the result of past transactions or events.

Liabilities

- ▶ Liabilities are present obligations of the firm.
- ▶ They are probable future sacrifices of economic benefits which arise as the result of past transactions or events.



Owners Equity

- Owners' equity is a claim by the owners.
- Owners' equity represents the owners' residual interest in the assets of the business
- Owners may make a direct investment in the business or operate at a profit and leave the profit in the business.
- Yet another name for owners' equity is net assets which indicates that owners' equity results when liabilities are subtracted from assets.

$$\text{Owners' Equity} = \text{Assets} - \text{Liabilities}$$

Types of accounts

► Personal Accounts

These accounts are related to individuals, firms, companies, etc. A few examples of personal accounts include debtors, creditors, banks, outstanding/prepaid accounts, accounts of credit customers, accounts of goods suppliers, capital, drawings, etc.

► Real Accounts

All assets of a firm, which are tangible or intangible, fall under the category "Real Accounts".

► Nominal Accounts

Accounts which are related to expenses, losses, incomes or gains are called Nominal accounts



Golden Rules for Accounting

- ▶ **Personal Accounts**

Debit the receiver

Credit the giver

- ▶ **Real Accounts**

Debit what comes in

Credit what goes out

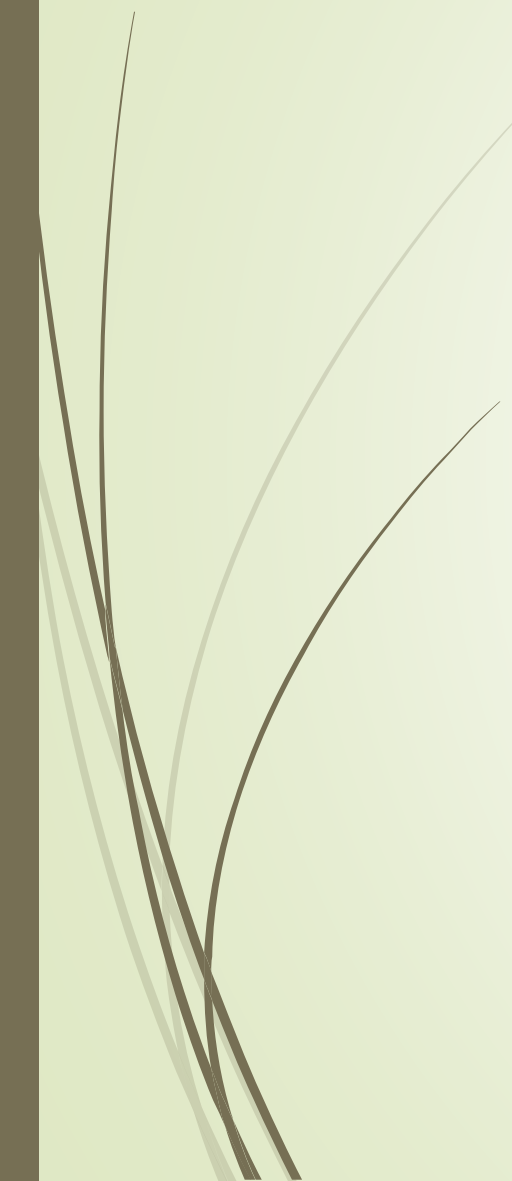
- ▶ **Nominal Accounts**

Debit all Expenses and Losses

Credit all Incomes and Gains



Accounting Reports

- ▶ Trial Balance
 - ▶ Profit & Loss Account
 - ▶ Balance Sheet
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Accounting Cycle



Trial Balance

- ▶ A trial balance is a list of all the general ledger accounts (both revenue and capital) contained in the ledger of a business.
- ▶ The trading profit and loss statement and balance sheet and other financial reports can then be produced using the ledger accounts listed on the trial balance.

BUSINESS CONSULTING COMPANY.
Post-closing Trial Balance
December 31, 2015

| Account Name | Debit | Credit |
|--------------------------------------|-------------------|-------------------|
| Cash | \$ 85,550 | |
| Accounts receivable | 4,700 | |
| Prepaid building rent | 1,500 | |
| Unexpired insurance | 3,600 | |
| Supplies | 250 | |
| Equipment | 9,000 | |
| Accumulated depreciation - equipment | | \$ 3,600 |
| Notes payable | | 5,000 |
| Accounts payable | | 1,600 |
| Salaries payable | | 2,000 |
| Income taxes payable | | 3,000 |
| Unearned service revenue | | 4,400 |
| Capital stock | | 50,000 |
| Retained earnings | | *35,000 |
| Totals | \$ 104,600 | \$ 104,600 |

Profit & Loss Statement

- ▶ A profit and loss statement (P&L) is a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a fiscal quarter or year.
- ▶ It can also be called as income & expenditure statement

Financial Reports → Horizontal Profit & Loss Account



Universal Enterprises
Plot No. 113 & 114,
Industrial Estate, Hengasandra,
Bangalore
Profit & Loss A/c
1-Apr-2008 to 31-Mar-2009

| Particulars | 1-Apr-2008 to 31-Mar-2009 | Particulars | 1-Apr-2008 to 31-Mar-2009 |
|---------------------------------|---------------------------|------------------------------|---------------------------|
| Opening Stock | | Sales Accounts | 3,15,70,847.50 |
| Accessories | | CST Sales | 60,30,125.00 |
| Components | | Local Sales | 2,46,85,830.00 |
| Defective Items | | Sales @ 20% | 2,88,000.00 |
| Dot Matrix Printers | | Sales - Advertising Services | 55,550.00 |
| Laser Jet Printers | | Sales AMC for Computers | 65,000.00 |
| IMFL | | Sales - Exports | 70,342.50 |
| Timber | | Sales Bills to Make | 3,75,000.00 |
| Timber - OTFL | | | |
| Purchase Accounts | 2,41,98,697.50 | Indirect Incomes | |
| Purchase @ 12.5% | 1,31,95,812.50 | Closing Stock | 13,58,831.73 |
| Purchase @ 20% | 2,00,000.00 | Accessories | 15,792.75 |
| Purchase @ 4% | 1,07,29,380.00 | Components | 2,573.22 |
| Purchase - Courier Charges | 18,170.00 | Defective Items | 600.00 |
| Purchase - Interstate | 40,560.00 | Dot Matrix Printers | 14,000.00 |
| Purchase - Telephone Services | 14,775.00 | Laser Jet Printers | 17,400.00 |
| Purchase Bills to Come | | IMFL | 8,000.00 |
| | | Timber | 12,72,985.75 |
| | | Timber - OTFL | 27,500.00 |
| Direct Expenses | 33,240.00 | | |
| Assembling Charges | 18,240.00 | | |
| Carriage Inwards | 15,000.00 | | |
| Indirect Expenses | 24,58,749.81 | | |
| Depreciation on Fixed Assets | 6,02,622.20 | | |
| Interest & Finance Charges | 53,519.37 | | |
| Operating Expenses | 3,33,565.75 | | |
| Salaries & Remuneration Paid | 12,79,165.00 | | |
| Selling & Distribution Expenses | 19,400.00 | | |
| Employer ESI Contributions | 8,668.00 | | |
| Employer PF Contributions | 44,096.49 | | |
| Bonus | 50,000.00 | | |
| Business Promotion Expenses | 29,500.00 | | |
| Legal Fees | 10,500.00 | | |
| Miscellaneous Expenses | 13,210.00 | | |
| Research & Development Expenses | 10,000.00 | | |
| Nett Profit: | 62,36,991.92 | | |
| Total | 3,29,29,679.23 | Total | 3,29,29,679.23 |

Balance Sheet

- ▶ A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.

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|-----------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| BALASORE | | | |
| ORISSA-756001 | | | |
| Balance Sheet | | | |
| 1-Apr-2005 to 31-Mar-2006 | | | |
| Liabilities | as at 31-Mar-2006 | Assets | as at 31-Mar-2006 |
| Capital Account | 72,48,461.88 28.77 % | Fixed Assets | 65,24,993.74 25.90 % |
| <i>Bhabesh Kumar Panda</i> | 23,47,886.93 | <i>Building</i> | 1,17,145.85 |
| <i>Biresh Kumar Panda</i> | 12,86,247.55 | <i>Computer</i> | 947.08 |
| <i>Harish Chamdra Panda</i> | 16,17,783.46 | <i>Furniture & Fittings</i> | 4,025.49 |
| <i>Manorama Panda</i> | <u>19,96,543.94</u> | <i>Land</i> | 2,93,121.50 |
| | | <i>Plant & Machinery</i> | 24,89,147.45 |
| Loans (Liability) | 6,32,614.69 2.51 % | <i>Vehicle</i> | <u>36,20,606.37</u> |
| <i>ICICI BANK LTD.</i> | <u>6,32,614.69</u> | | |
| Current Liabilities | 1,61,81,793.55 64.23 % | Current Assets | 1,86,66,668.65 74.10 % |
| <i>Sundry Creditors</i> | 1,23,62,425.57 | <i>INVESTMENT(C.A.)</i> | 1,07,75,278.00 |
| <i>Audit Fee Payable</i> | 10,000.00 | <i>Closing Stock</i> | 34,31,261.20 |
| <i>SBI, Main Branch-Adhoc A/c</i> | 14,70,114.33 | <i>Loans & Advances (Asset)</i> | 34,45,447.06 |
| <i>SBI, Main Branch-CC A/c</i> | <u>23,39,253.65</u> | <i>Sundry Debtors</i> | 9,16,745.15 |
| | | <i>Cash-in-hand</i> | 67,411.68 |
| Term Loan | | <i>Bank Accounts</i> | <u>30,525.56</u> |
| Profit & Loss A/c | 11,28,792.27 4.48 % | | |
| <i>Opening Balance</i> | | | |
| <i>Current Period</i> | <u>11,28,792.27</u> | | |
| Total | 2,51,91,662.39 100 % | Total | 2,51,91,662.39 100 % |

In this view, each group is expressed as a percentage of the total of the Balance Sheet.



Thank You