



UNIVERSITY OF DHAKA

Institute of Business Administration (IBA)

# **Master of Business Administration (MBA)**

*A501: Financial Accounting*

Last Updated: Friday 25<sup>th</sup> April, 2025

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# Definition and Characteristics: Accounting and Transaction

10-04-25 Thursday

**Accounting** is the systematic process of identifying, recording, classifying, summarizing, and communicating financial information to aid economic decision-making. It serves as the language of business and provides a framework for understanding a firm's financial position and performance.

## Key Characteristics of Accounting:

- **Systematic:** Follows a standard process and principles (GAAP or IFRS).
- **Historical and Predictive:** Reflects past events and supports future planning.
- **Quantitative:** Concerned primarily with monetary information.
- **Reliable and Verifiable:** Based on evidence (e.g., invoices, receipts).
- **Comparable and Consistent:** Enables year-on-year or firm-to-firm comparison.

**Example:** A company sells a product for \$1,000. The sale is recorded in the accounting books under revenue (income), and cash or receivable is increased by \$1,000.

**Transaction:** Any business event that has a financial impact on the entity and can be reliably measured.

## Characteristics of a Transaction:

- **Financial Impact:** Affects assets, liabilities, equity, income, or expenses.
- **Dual Aspect:** Every transaction has a debit and a credit effect.
- **Measurable in Money:** Must be quantifiable in monetary terms.

**Example:** Paying salary of \$5,000 – decreases cash (asset) and increases expense.

## Examples: Is it a Transaction?

- **Purchased machinery for cash** – Yes, it affects assets (machinery and cash).
- **Signed a contract to deliver goods next month (no advance received)** – No, no financial impact yet.
- **Paid salaries to employees** – Yes, it reduces cash and increases expenses.
- **Owner invests capital into the business** – Yes, it increases assets and equity.
- **Employee promoted, no monetary change** – No, it is not measurable in monetary terms.
- **Received utility bill (not yet paid)** – Yes, it increases liabilities and expenses.
- **Customer places an order (no payment yet)** – No, it's a future event with no current financial effect.
- **Sold goods on credit** – Yes, it increases accounts receivable and revenue.
- **Declared dividend (not paid yet)** – Yes, it creates a liability.
- **Paid electricity bill** – Yes, it decreases cash and increases expense.
- **Depreciation of machinery recorded** – Yes, it increases expense and reduces asset value.

- **Appointed new auditor** – *No, unless fees are paid or accrued.*

### Types of Accounting Reports and Their Uses

- **Income Statement (Profit & Loss Statement):** Shows revenues and expenses over a period; indicates profitability.  
*Use: Assess operational performance.*
- **Balance Sheet (Statement of Financial Position):** Displays assets, liabilities, and owner's equity at a specific point in time.  
*Use: Understand financial position and solvency.*
- **Cash Flow Statement (Statement of Cashflows):** Reports cash inflows and outflows from operating, investing, and financing activities.  
*Use: Monitor liquidity and cash management.*
- **Statement of changes in Equity (Remained earned statement):** Explains changes in equity from investments, withdrawals, and retained earnings.  
*Use: Analyze changes in owner's interest in the firm.*

### Characteristics of Good Accounting Reports:

- **Relevance:** Information must aid decision-making.
- **Faithful Representation:** Complete, neutral, and free from error.
- **Understandability:** Clear presentation for users.
- **Comparability:** Allows evaluation across periods and entities.
- **Timeliness:** Provided in time to be useful.

### Users of Accounting Information

- **Internal Users:**
  - Managers – for planning and control.
  - Employees – job security and performance.
  - Owners – profit evaluation.
- **External Users:**
  - Investors – profitability and risk analysis.
  - Creditors – repayment ability.
  - Government – taxation and regulatory compliance.
  - Customers – supplier stability.
  - Regulatory Bodies – ensure legal conformity.

### Examples of Elements in Accounting :

Category	Examples
<b>Assets</b>	Cash, Bank Balance, Accounts Receivable, Inventory, Prepaid Insurance, Office Supplies, Furniture, Equipment, Buildings, Land, Vehicles, Patents, Copyrights, Trademarks, Goodwill, Long-term Investments, Marketable Securities
<b>Liabilities</b>	Accounts Payable, Notes Payable, Accrued Expenses (e.g., Wages Payable, Interest Payable), Unearned Revenue, Loans Payable, Bonds Payable, Taxes Payable, Deferred Revenue, Lease Obligations, Credit Card Payable, Mortgage Payable
<b>Owner's Equity</b>	Capital, Retained Earnings, Drawings, Owner's Contributions, Common Stock, Preferred Stock, Additional Paid-in Capital, Treasury Stock, Accumulated Other Comprehensive Income
<b>Income (Revenue)</b>	Sales Revenue, Service Revenue, Interest Income, Rental Income, Commission Revenue, Dividend Income, Consulting Revenue, Royalties Earned, Investment Income, Subscription Revenue, Gain on Sale of Asset, Foreign Exchange Gain
<b>Expenses</b>	Salaries and Wages Expense, Rent Expense, Utilities Expense, Insurance Expense, Depreciation Expense, Amortization Expense, Interest Expense, Advertising Expense, Supplies Expense, Repairs and Maintenance Expense, Legal Fees, Audit Fees, Delivery Expense, Telephone Expense, Training Expense, Bad Debts Expense, Loss on Disposal of Asset

### Sub-types of Owner's Equity:

Type	Definition	Example
<b>Share Capital</b>	Amount invested by shareholders in exchange for shares of ownership.	An investor purchases 1,000 shares of a company at \$10 each; \$10,000 is recorded as share capital.
<b>Retained Earnings</b>	Portion of net income retained in the business after dividends are paid.	A company earns \$50,000 profit and pays \$10,000 in dividends; \$40,000 is retained earnings.

### Types of Revenue and Expenses:

- **Revenue:**
  - **Sales Revenue** – Income from selling goods (e.g., merchandise sales by a retailer).
  - **Service Revenue** – Income from providing services (e.g., consulting fees, legal services).
- **Operating Expenses:**
  - Rent Expense
  - Salaries and Wages
  - Utilities Expense
  - Insurance Expense
  - Advertising Expense

- Depreciation and Amortization
- Repairs and Maintenance
- Office Supplies
- **Non-Operating Income:**
  - Interest Income
  - Dividend Income
  - Gain on Sale of Assets
  - Rental Income (if not core business)
  - Foreign Exchange Gain

### Types of Business Entities and Comparison:

Criteria	Proprietorship	Partnership	Company (Corporation)
<b>Ownership</b>	Single individual	2 - 20 partners	2 - unlimited Shareholders
<b>Legal Identity</b>	No separate legal entity	Not a separate legal entity (except LLP)	Separate legal entity
<b>Liability</b>	Unlimited liability	Unlimited (except LLP)	Limited to shareholding
<b>Capital Source</b>	Personal funds	Partner contributions	Share issuance, retained earnings
<b>Regulation</b>	Minimal legal formalities	Moderate regulation	Heavily regulated by company laws
<b>Continuity</b>	Ends on owner's death or withdrawal	Ends on partner exit (unless reconstituted)	Perpetual succession
<b>Taxation</b>	Taxed as personal income	Taxed as personal income of partners	Separate entity, corporate tax applies

# Standard Accounting Reports with Examples

17-04-25 Thursday

## Standard Accounting Reports with Examples:

- 1. Income Statement (Profit and Loss Statement):

Particulars	Amount (USD)
Sales Revenue	120,000
Less: Cost of Goods Sold (COGS)	70,000
<b>Gross Profit<sup>1</sup></b>	<b>50,000</b>
Less: Operating Expenses	25,000
<b>Net Operating Income<sup>2</sup></b>	<b>25,000</b>
Add: Non-operating Income (Interest Income)	3,000
Less: Interest Expense	2,000
<b>Profit Before Tax (PBT)<sup>3</sup></b>	<b>26,000</b>
Less: Income Tax Expense	6,000
<b>Net Income<sup>4</sup></b>	<b>20,000</b>

- 2. Balance Sheet (as of a specific date):

Assets	Liabilities	Owner's Equity
Cash: 15,000 Accounts Receivable: 10,000 Inventory: 25,000 Equipment: 35,000	Accounts Payable: 20,000 Bank Loan: 30,000	Capital: 10,000 Retained Earnings: 15,000
<b>Total: 85,000</b>	<b>Total: 50,000</b>	<b>Total: 35,000</b>

- 3. Cash Flow Statement:

Cash Flows from Operating Activities	Amount (USD)
Cash received from customers	110,000
Cash paid for operating expenses	(80,000)
<b>Net Cash from Operating Activities</b>	<b>30,000</b>
<b>Cash Flows from Investing Activities</b>	
Purchase of equipment	(20,000)
<b>Net Cash from Investing Activities</b>	<b>(20,000)</b>
<b>Cash Flows from Financing Activities</b>	
Proceeds from bank loan	10,000
Owner capital contribution	5,000
<b>Net Cash from Financing Activities</b>	<b>15,000</b>
<b>Net Increase in Cash</b>	<b>25,000</b>

- 4. Statement of Owner's Equity:

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<sup>1</sup>Also known as: Gross Margin

<sup>2</sup>Also known as: Operating Profit, EBIT (Earnings Before Interest and Tax)

<sup>3</sup>Also known as: Earnings Before Tax (EBT)

<sup>4</sup>Also known as: Net Profit, Net Earnings, Bottom Line



Particulars	Amount (USD)
Beginning Capital	30,000
Add: Owner Contribution	5,000
Less: Owner Withdrawals	(10,000)
Add: Net Profit	20,000
Less: Divident	(10,000)
<b>Ending Capital</b>	<b>35,000</b>

## Question

Sakiful Alam and Aziz Khan opened a web consulting business called **Money Laundering Services Pvt. Ltd.** and completed the following transactions in its first month of operations:

- **June 1:** Alam and Khan invested BDT 80,000 cash along with office equipment valued at BDT 26,000 in the company.
- **June 2:** The company prepaid BDT 9,000 cash for 12 months' rent for office space. (*Hint: Debit Prepaid Rent for BDT 9,000*)
- **June 3:** The company made credit purchases for BDT 8,000 in office equipment and BDT 3,600 in office supplies. Payment is due within 10 days.
- **June 6:** The company completed services for a client and immediately received BDT 4,000 cash.
- **June 9:** The company completed a BDT 6,000 project for a client, who must pay within 30 days.
- **June 13:** The company paid BDT 11,600 cash to settle the account payable created on June 3.
- **June 19:** The company paid BDT 2,400 cash for the premium on a 12-month insurance policy. (*Hint: It is prepayment*)
- **June 22:** The company received BDT 4,400 cash as partial payment for the work completed on June 9.
- **June 25:** The company completed work for another client for BDT 2,890 on credit.
- **June 28:** The company gave BDT 5,500 to Alam and Sakiful in cash as dividends.
- **June 29:** The company purchased BDT 600 of additional office supplies on credit.
- **June 30:** The company paid BDT 435 cash for this month's utility bill.

**Balance Sheet of Money Laundering Services Pvt. Ltd.**  
**As at June 30, 2025**

Assets	Liabilities and Owner's Equity
<b>Current Assets</b> Cash ..... BDT 66,465 Accounts Receivable ..... BDT 4,490 Office Supplies ..... BDT 4,200 Prepaid Rent ..... BDT 9,000 Prepaid Insurance ..... BDT 2,400	<b>Current Liabilities</b> Accounts Payable ..... BDT 600
<b>Non-current Assets</b> Office Equipment ..... BDT 60,000	<b>Owner's Equity</b> Owner Capital ..... BDT 106,000 Retained Earnings ..... BDT 39,955
<b>Total Assets ..... BDT 146,555</b>	<b>Total Liabilities and Equity BDT 146,555</b>

**Clarification Notes:**

**Cash (BDT 66,465):**

- Initial investment: BDT 80,000
- Service revenue (June 6): BDT 4,000
- Partial payment from client (June 22): BDT 4,400
- Prepaid rent (June 2): BDT (9,000)
- Payment for June 3 purchases: BDT (11,600)
- Prepaid insurance (June 19): BDT (2,400)
- Dividends (June 28): BDT (5,500)
- Utilities expense (June 30): BDT (435)

**Office Equipment (BDT 34,000):**

- Initial contribution: BDT 26,000
- Purchased on credit (June 3): BDT 8,000

**Office Supplies (BDT 4,200):**

- Purchased (June 3): BDT 3,600
- Purchased (June 29): BDT 600

**Prepaid Rent (BDT 9,000):**

- Paid in advance for 12 months (June 2)

**Prepaid Insurance (BDT 2,400):**

- 12-month insurance premium paid (June 19)

**Accounts Receivable (BDT 4,490):**

- Service provided (June 9): BDT 6,000
- Service provided (June 25): BDT 2,890
- Partial collection (June 22): BDT (4,400)

**Accounts Payable (BDT 600):**

- Equipment purchased (June 3): BDT 8,000
- Supplies purchased (June 3): BDT 3,600
- Payment made (June 13): BDT (11,600)
- Supplies purchased (June 29): BDT 600

**Owner Capital (BDT 106,000):**

- Cash invested: BDT 80,000
- Equipment invested: BDT 26,000

**Retained Earnings (BDT 6,955):**

- Total Revenue: BDT 12,890
- Total Expenses & Dividends: BDT (5,935)
- Net Income: BDT 6,955

# Double Entry System and Debit-Credit Rules

23-04-2025 Wednesday

## Double Entry System:

- Every transaction affects at least two accounts.
- Based on the accounting equation: **Assets = Liabilities + Owner's Equity**.
- Ensures accounting records are balanced.
- Promotes accuracy and reduces fraud through self-checking mechanisms.

## Key Characteristics:

- **Dual Aspect:** Every transaction has a dual effect — one debit and one credit.
- **Balance Maintenance:** Total debits always equal total credits.
- **Scientific Recording:** Systematic, chronological, and consistent.
- **Error Detection:** Helps locate posting and recording errors.

## Debit-Credit Rules for Accounting Elements:

Account Type	Increase (Dr/Cr)	Decrease (Dr/Cr)
Assets	Debit	Credit
Liabilities	Credit	Debit
Owner's Equity	Credit	Debit
Revenue	Credit	Debit
Expenses	Debit	Credit
Dividends	Debit	Credit

## Writing Conventions for Debit-Credit Sheets:

- **Left side (Debit):** Inflows, asset acquisition, expense recognition, or owner withdrawals.
- **Right side (Credit):** Outflows, liabilities incurred, revenue earned, or capital added.
- **Format:** Traditional T-account — left side for debit entries and right side for credit entries.
- **Chronological Entry:** Transactions are recorded in the order they occur.
- **Narration:** Brief explanation is provided under the entry for clarity.

## Question

On January 1, 2025, Mr. Tanvir started a business named **Tanvir Traders**. The following transactions occurred during January:

- Jan 1: Invested BDT 100,000 cash and BDT 50,000 worth of furniture.
- Jan 3: Purchased goods for BDT 30,000 in cash.
- Jan 5: Sold goods for BDT 20,000 on credit.
- Jan 10: Paid salaries BDT 5,000.
- Jan 12: Received BDT 15,000 from customers.
- Jan 15: Paid BDT 3,000 for rent.
- Jan 20: Purchased goods on credit for BDT 10,000.
- Jan 25: Sold goods for BDT 12,000 in cash.
- Jan 28: Withdrew BDT 2,000 for personal use.

## Journal Entries

Date	Particulars	Debit (BDT)	Credit (BDT)
Jan 1	Cash A/C Dr. Furniture A/C Dr. To Capital A/C	100,000 50,000	150,000
Jan 3	Purchase A/C Dr. To Cash A/C	30,000	30,000
Jan 5	Accounts Receivable A/C Dr. To Sales A/C	20,000	20,000
Jan 10	Salary Expense A/C Dr. To Cash A/C	5,000	5,000
Jan 12	Cash A/C Dr. To Accounts Receivable A/C	15,000	15,000
Jan 15	Rent Expense A/C Dr. To Cash A/C	3,000	3,000
Jan 20	Purchase A/C Dr. To Accounts Payable A/C	10,000	10,000
Jan 25	Cash A/C Dr. To Sales A/C	12,000	12,000
Jan 28	Drawings A/C Dr. To Cash A/C	2,000	2,000

**Ledger Accounts for June Transactions****Cash Account**

<b>Date</b>	<b>Particulars</b>	<b>Debit (BDT)</b>	<b>Credit (BDT)</b>
June 1	Owner's Capital	80,000	
June 6	Service Revenue	4,000	
June 22	Accounts Receivable	4,400	
June 2	Prepaid Rent		9,000
June 13	Accounts Payable		11,600
June 19	Prepaid Insurance		2,400
June 28	Dividends		5,500
June 30	Utilities Expense		435
<b>Total</b>		<b>88,400</b>	<b>28,935</b>

**Office Equipment Account**

<b>Date</b>	<b>Particulars</b>	<b>Debit (BDT)</b>	<b>Credit (BDT)</b>
June 1	Owner's Capital	26,000	
June 3	Accounts Payable	8,000	
<b>Total</b>		<b>34,000</b>	

**Office Supplies Account**

<b>Date</b>	<b>Particulars</b>	<b>Debit (BDT)</b>	<b>Credit (BDT)</b>
June 3	Accounts Payable	3,600	
June 29	Accounts Payable	600	
<b>Total</b>		<b>4,200</b>	

**Prepaid Rent Account**

<b>Date</b>	<b>Particulars</b>	<b>Debit (BDT)</b>	<b>Credit (BDT)</b>
June 2	Cash	9,000	

**Prepaid Insurance Account**

<b>Date</b>	<b>Particulars</b>	<b>Debit (BDT)</b>	<b>Credit (BDT)</b>
June 19	Cash	2,400	

**Accounts Receivable Account**

<b>Date</b>	<b>Particulars</b>	<b>Debit (BDT)</b>	<b>Credit (BDT)</b>
June 9	Service Revenue	6,000	
June 25	Service Revenue	2,890	
June 22	Cash		4,400
<b>Total</b>		<b>8,890</b>	<b>4,400</b>

**Accounts Payable Account**

Date	Particulars	Debit (BDT)	Credit (BDT)
June 13	Cash	11,600	
June 3	Office Equipment		8,000
June 3	Office Supplies		3,600
June 29	Office Supplies		600
<b>Total</b>		11,600	12,200

#### Service Revenue Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 6	Cash		4,000
June 9	Accounts Receivable		6,000
June 25	Accounts Receivable		2,890
<b>Total</b>			12,890

#### Dividends Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 28	Cash	5,500	

#### Utilities Expense Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 30	Cash	435	