



UNIVERSITY OF DHAKA

Institute of Business Administration (IBA)

Master of Business Administration (MBA)

A501: Financial Accounting

Last Updated: Thursday 24th 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
Assets	Cash, Bank Balance, Accounts Receivable, Inventory, Prepaid Insurance, Office Supplies, Furniture, Equipment, Buildings, Land, Vehicles, Patents, Copyrights, Trademarks, Goodwill, Long-term Investments, Marketable Securities
Liabilities	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
Owner's Equity	Capital, Retained Earnings, Drawings, Owner's Contributions, Common Stock, Preferred Stock, Additional Paid-in Capital, Treasury Stock, Accumulated Other Comprehensive Income
Income (Revenue)	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
Expenses	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
Share Capital	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.
Retained Earnings	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)
Ownership	Single individual	2 - 20 partners	2 - unlimited Shareholders
Legal Identity	No separate legal entity	Not a separate legal entity (except LLP)	Separate legal entity
Liability	Unlimited liability	Unlimited (except LLP)	Limited to shareholding
Capital Source	Personal funds	Partner contributions	Share issuance, retained earnings
Regulation	Minimal legal formalities	Moderate regulation	Heavily regulated by company laws
Continuity	Ends on owner's death or withdrawal	Ends on partner exit (unless reconstituted)	Perpetual succession
Taxation	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
Gross Profit¹	50,000
Less: Operating Expenses	25,000
Net Operating Income²	25,000
Add: Non-operating Income (Interest Income)	3,000
Less: Interest Expense	2,000
Profit Before Tax (PBT)³	26,000
Less: Income Tax Expense	6,000
Net Income⁴	20,000

- 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
Total: 85,000	Total: 50,000	Total: 35,000

- 3. Cash Flow Statement:

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

- 4. Statement of Owner's Equity:

¹Also known as: Gross Margin

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

³Also known as: Earnings Before Tax (EBT)

⁴Also 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)
Ending Capital	35,000

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.

Money Laundering Services Pvt. Ltd.
Balance Sheet as of June 30

Date	Assets		Liabilities		Owner's Equity	
	Account	BDT	Account	BDT	Account	BDT
June 1	Cash	80,000			Shared Capital	106,000
	Office Equipment	26,000				
June 2	Prepaid Rent	9,000				
	Cash (Paid Rent)	(9,000)				
June 3	Office Equipment	8,000	Accounts Payable	11,600		
	Office Supplies	3,600				
June 6	Cash (Revenue)	4,000			Retained Earnings	4,000
June 9	Accounts Receivable	6,000			Retained Earnings	6,000
June 13	Cash Payment	(11,600)	A/P Settled	(11,600)		
June 19	Prepaid Insurance	2,400				
	Cash (Paid Insurance)	(2,400)				
June 22	Cash (AR Collected)	4,400				
	Accounts Receivable	(4,400)				
June 25	Accounts Receivable	2,890			Revenue	2,890
June 28	Cash (Dividends)	(5,500)			Dividends	(5,500)
June 29	Office Supplies	600	Accounts Payable	600		
June 30	Utilities Expense	(435)			Expenses	(435)
	Total Assets	113,555	Total Liabilities	600	Total Owner's Equity	112,955