****FINANCIAL ACCOUNTING ONE****

**Acting** is used to access the financial well-being or otherwise of biz & other org.

**Acting**is a process of **recording, classifying, summarizing, analyzing, interpreting & reporting financial transactions of a biz.**

**Accounting = Financial Acting**

Acting concerns with **revenue, expenses, asset, liabilities of a biz entity**.

It has a 2-fold obj → to ascertain profitability of a biz & to know the finan position of a concern.

Biz transaction = an event which involves transfer or exchange of money or money’s worth.

****Biz Transaction dat a firm might have:****

* Paying those to whom money is owed
* Returning assets 2 owners
* Selling goods & services of d firm
* Investing resources in assets
* Biz proper source documents

****Finan Acting**** provides info regarding d result of its operations & finan status of d biz.

****Acting = involves:****

* **recording data**
* **summarizing data**
* **interpreting data**

****BOOKKEEPING****  
= the art of recording in d books of accts & monetary aspect of commercial or finan transactions.

It involves d recording on a regular basis of an entity’s finan transactions.

Proper bookkeeping helps biz org to be able to trace all info in its books to make key operating, investing & finan decisions.

Bookkeepers: **individuals who manage all finan data for entities.**

Proper bookkeeping gives biz org a reliable measure of their performance.

### ****DIFF BTW BOOKKEEPING & ACTING****

**BK**: responsible for d recording of finan transactions.

**Acc**: responsible for interpreting, classifying, analyzing, reporting & summarizing finan data.

****Decision making:**** Mg’mt cannot take a decision based on data provided by BK.

**Mg’mt** can take decision based on data provided by **Acci**.

****Obj:**** obj of BK is to keep all records of all financial transactions proper & systematic.

Obj of Acci is to provide a finan situation & further communicate info to relevant authorities.

****Preparation of finan statements:****

Required in Acci but not prepared in BK.

****Skills:**** BK doesn’t require any special skill set.

Acci requires special skills due to its analytical nature.

****Analysis:**** BK does not require any analysis.

Acci uses BK info to analyze & interpret d data into reports.

### ****Image 2****

****XTICS OBS OF ACTING****  
The main obj of acct is to provide quantitative info for decision making.

* Acct has many obj, eg:
* To facilitate rational decision making
* Ascertain d finan position of biz
* Determine operational profit or loss
* To comply with legal & contractual obligation.

****QUALITIES OF ACCT INFO****

* Relevance
* Accuracy
* Timeless
* Comprehensibility
* Reliability
* Consistency
* Completeness

****LIMITATIONS OF FA****

* Records only quantitative info
* Records only d historical cost
* Provides info of d whole biz entity
* Does not help in knowing d cost behaviour as it does not distinguish btwn a fixed & variable cost.

****TYPES OF ACTING****

Finan Acct: primarily concerned with d preparation of financial statements.

Mgmt Acct: concerned such as interpretation of incurred financial statements, make acting etc.

****DIFF B’W FA & MA****

FA: for external users

MA: for internal users

**Purpose of info**

****Scope:**** FA reports d whole biz.

MA focuses on small parts of org.

****Legal Requirement:**** The law requires FA info.

MA is optional.

****Reporting freq.:**** In FA reports are prepared periodically (yearly).

MA it is optional may be weekly, monthly.

****Nature of info:**** FA = mostly financial, MA = both financial & non-financial.

****Time Orient.:**** FA report past events, MA report past/present & future info.

****Format & Reg.:**** FA must conform with legal requirements (CIFRS), MA not required to.

****MAJOR FINAN REPORTS****

* Cash flow statement
* Change in Equity
* Notes to d finan ✔
* Balance sheet
* Income statement

****INCOME STATEMENT (AKA P&L STATEMENT)****  
= a finan doc which shows income earned & expenses incurred.

****BALANCE SHEET****  
= a statement of financial position of a biz concern @ a given date. Shows d assets & liabilities existing on a particular date.

****CASH FLOW STATEMENT****  
= financial doc dat presents income actually received & expenses actually paid. It deals only sources of cash coming into d biz.

****CHANGE IN EQUITY STATEMENT****  
= details d Δ in owner’s equity over an acting period by presenting d movement in reserves comprising d shareholders’ equity.

****Calc structure:****  
Beginning equity + Net income – Dividend +/– other Δ = Ending equity

****Notes to Finan Statement (footnotes)****  
= provide additional information pertaining to d company’s operations & financial position & integral part of a financial statement.

****USERS OF ACCT INFO****

* Mg’mt
* Govt
* Shareholders
* Banks
* Customers
* Employees
* Creditors
* Int. revenue

****TYPES OF ACTING****

Finan Acct

Mgmt Acct

Cost Acct: = d process of determining & accumulating d cost of a particular product or activity.

****ACCTING CYCLE****  
= when complete ongoing sequence of acct procedure is done which happen frequently & repeated in same directions during an acting period.

****Steps/Phases of Act Cycle****

recording of transaction →

Journal → ledger → Trial balance →

Adjustment Entries → Closing Entries → Finan statements.

****IDENTIFICATION OF TRANSACTION****  
= In act only biz transactions are recorded.

Transaction is an event which can be expressed quantitatively in terms of money, which changes d finan position of a biz enterprise.

An event is an incident which may or may not bring any Δ in finan position of a biz enterprise.

All transaction = events

Not all events = transactions

****SOURCE DOCUMENTS****  
= these are written documents holding details of a biz transaction. Common source docs include:

* Invoice or bill
* Receipts
* Debit note
* Credit note
* Pay in slip
* Cheque

****VOUCHER****  
= a source by which we record a transaction. Classified under…

**Payment Voucher** usually expropriated. Standard form is a record of payment.

**Receipt voucher** is documented within its issued against each record. It may also be a printed standard form.

**Transfer voucher** is used to record or reestablish transactions. An internal transaction or a transaction not involving any cash payment is reviewed in GTV.

**✘ CLASSIFICATION OF ACCTS**

✘ **Personal Accounts**: related with accis of individuals, firms, companies etc. classified into:

Natural PA ✘ Artificial PA

✘ **Real Accts:** accis related to asset or property classified into tangible & intangible RA

✘ **Nominal Accounts:** relating to income expenses, losses, forgery, wages, life, rent, interest, life, salary, life, loss debt, life.