B/sheet

① Assets < current / Noncurrent (fixed)

② liability.

③ Equity.

I statement

① Revenue

② Expenses.

↳ Assets reported on basis of liquidity.

↳ First → Current Assets

↳ Second → fixed Assets.

↳ Liquidity:-

↳ Both current & fixed

↳ Ability of an asset to be turned into money easily.

↳ how long it will take to convert into cash.

↳ which will have lower price concessions.

e.g

Mehran is more liquid than BMW.

↳ Assets are more liquid

Cash

↳ most liquid current asset.

A business also has liquidity.

Liability

↳ takes money out of your bank acount

"You're liable to do something"

↳ you owe money (you are liable to pay them).

↳ Current liability.

↳ long term liability.

↳ Current liab

↳ to be paid within one year

long term/non current.

↳ to be paid after one year.

↳ Time duration determines all this.

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loan Sharks
↳ High interest rate.

Liabilities → Payables. /-ve flow /outflows.

Assets → Receivables /+ve cash flow /cash inflow.

Interest on loan
↳ cash → Bank Asset
↳ So, you should pay rent on it.
↳ Bank motto

Liab

Accounts payable
↳ Oral commitment of loan.

Notes Payable
↳ written commitment of loan.

Non-Current liab
↳ Payable After 1 year of the balance sheet
debt instruments:
- Bank loan.
- Bonds.

Shares → Equity instruments.

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Toyota → in 1990's → needed 1 Bn for Hybrid car research

Retained Earnings
↳ older profits.

Shares
(Equity Instrument
↳ not loan.)
↳ Shares give you ownership rights.
↳ so, you're entitled to the profit

Liab/Loan.
↳ Bonds.
↳ piece of paper

---

financial instruments → by financial engineers.

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default → can't pay your liabilities.
↳ defaulter's list.

liquidity
↳ is for assets.

Maturity
↳ for liability.
↳ debt deadline/due
↳ that is maturity time.

↳ early maturity.
↳ reported first (eg current assets)

↳ reported later (eg noncurrent).

B/sheet → Both sides Grand total must be equal/balanced according to B.S.E.

Assets = Liab + Equity

↳ Balance Sheet Eqtn.

Residual Claim?

Limited liability?

B/sheet (L.H.S = R.H.S)
XYZ Co.
31, Dec, 2021

(L.H.S)
Assets
C.A :- ...
Total C Assets 130
f.A :-
⋮
Total F Assets - 70
Total Assets 100

(R.H.S) of B/S
Liab:
C.L : ...
Total C.L : 20
Non-C :-
⋮
Total non cl - 40
Total Liab - 60
SH Equity - 40
Total L & E - 100

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Financial Statment — Income Statment / Balance Sheet

Residual Claim? — Equity?

~~Liab~~ limited liabilities?

Income Statment

XYZ Co.

For the years ended 31, Dec 2020

Revenue
Expenses.

Revenue

Sales Revenue ..... 100,000$

Cost of Sales ..... (60,000$)

Gross Profit ..... 40,000$

(P.T.O)

Sales Revenue → selling product
↳ giving you money on spot or in future

Cost of Sales (Cash outflow) → money spent on product
↳ labour
↳ material cost
etc

() → cash outflow.

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Gross profit - - - - 40,000

operating exps:-

Admin expenses - - 5,000

promotion expenses - - 4,000

Depreciation - - 7,000 (16,000)

Operating profit/EBIT - - - 24,000

Interest expense - - - (4,000)

EBT - - - - - - 20,000

Tax at 10% - - - (2,000)

Net profit - - - - 18,000

final figure should be double underline.

↳ Some cost of sales are not directly attributable.

↳ can't be part of cost of sales.

↳ put in "operating expenses"

EBT → Earning Before Tax

EBIT → Earning Before Income Tax.

Income statement → can be for end of month or year.

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XYZ co & ABC co same in everything
(only diff → ABC → op. profit

↳ Balance Sheet items are called "Stock Items".

↳ Flow items?
↳ item of income Statment

↳ follow standard format of income Statment in Exam.

↳ for buying shares we focus on operating profit

↳ Better to invest in ABC co

↳ don't take interest into account.

ABC co

30,000 — operating prof
(15,000) — int expense
15,000 — into EBT
(1,500) — Tax @ 10%
$13,500 — Net profit

↳ If operations running good → company running good.

Income Statment & B/Sheet Project

↳ In CPP

Summary

B/sheet

- Assets
  - Current
  - fixed
- Liabilities
  - Current
  - fixed/long term
- Equity (Share holders Equity)

B/sheet
↳ tells us about financial position of business.

A	B
$100 (Assets	100$
$90 (liabilities)	$10
$10 (Equity)	$90

B is stronger b/c of lower liabilities.

In B/sheet
↳ if L.H.S ≠ R.H.S
then there must be some mistake.

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Income Statement

↳ Income

↳ Expenses

↳ Profit

↳ Loss → Exp > Rev

↳ profit → Exp < Rev.

---

financial statements < B/Sheet, Income Statment

↳ Concerned people

↳ (1) The managment of the company.

(2) Collection of amount guaranteed by managment.

(3) Shareholders (income statment) (also B/sheet)

(4) Creditors (Banks → checks if you can return loan & pay interest)

↳ Intereseted in liquidity of a business

liquidity → Ability to easily produce cash.

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Chartered Accountants → financial detectives

→ Accounting is not the ultimate objective
↳ It is the mean to an end objective

→ Accounting
↳ to make better decisions.

Internal Auditer
External Auditer.

(5) Customers are also concerned.
(Quality → sales profit)

6) Government depts
(Tax depts in f/stats.)

→ Corporations are obligated to provide f/stats after a year.

→ 3 months → Quarter
1 year → Annual

f/stats in GDP of country?

Gross Domestic Product (GDP)

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GDP

↳ The total value of goods and services sold in a country in a particular year.

↳ Income statements of all businesses ~~and~~ with Sales Revenue will give you an estimate of the GDP (of the country in that year.)

→ when GDP is low - means that businesses are unable to sell their products

↳ teachers, docs etc are unable to sell services.

↳ loss of jobs.

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Rules for ~~nothing~~ debit and Credits.

① Assets

↳ when there is increase in asset, then it should be debitted

↳ Decrease in asset is credited.

② liabilities

increase in liability is credited

Decrease in liability is debited.

eg loan of 100,000.

↳ more cash (asset) by 100,000

↳ liability increase (Bank Loan) by 100,000

↳ always two accounts atleast involved.

↳ more cash

↳ 1 rule of Assets

↳ Bank loan → 3rd rule in liabilities (increase in liability)

↳ Entry that we are going to make in book of Accounts

↳ called "General" Journal

↳ or also called the first book of entry.

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→ Same date.

→ Transaction

Date	Acc Title	Debit	Credit
1st Sep 21	Cash account	100,000	
	Bank loan Acc		100,000
	Borrowed amount from ABC Bank for 2 years @ 15% interest rate		

↳ If you handle the cash then you can handle the loan

↳ Description of Entry

↳ always at end

↳ Debit (left indented) → towards left

↳ Credit (Right indented) → towards Right

↳ Debit must be equal to Credit or else entry wrong.

Simple entry

↳ 1 entry at Debit and Credit

↳ But more possible.

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Compound entry

more than one debit or credit side
↳ need to sum both amounts.

* ↳ Sum of credits = Sum of Debits.

---

* Indentation is important
↳ eg ↳ b/c if no lines and writing left indented in freestyle then you need this

1 sep 21 → Cash Acc → 100,000
→ Bank loan Acc → 100,000
↓
Right indented

↳ So, without clear lines indentation helps alot.
↳ Important for exam.

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land bought → debited.

money left (Asset) → credited.

③ Equity :-

↳ decrease is debitted.

↳ Increase in Equity is ~~debitted~~ credited

↳ Share money comes in business

↳ owner equity → goes out.

B/sheet

Assets	Liabilities
Cash ↑ 50,000	
	Equity
Total Assets ↑50,000	owner Equity ↑50,000

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Learn how to argue to decide debit or credit

(4) Revenue

	Dr	Cr
Cash acc	↑	
Sales Revenue (Sold worth)		↑

↳ Increase in Revenue is ~~debitted~~ credited

↳ Decrease in Revenue is debitted

↳ not looking for cash, only the second part in Entry sheet

(5) Expenses

↳ Increase in expenses is ~~credited~~ debitted

↳ decrease in expenses is credited.

Utility Expense Acc — 10,000
Cash Acc — 10,000

* Drawings

↳ take money out from business and spend on personal expenses

↳ so you have to record that.

↳ due to Accounting Principle ↳ "Seperate Entity" Principle

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unlimited → ~~Ra~~ sue personal liab
limited → cant sue personal.

↳ Principle

↳ personal affairs of owner is seperate

Types of Business.

① Sole Propietorship.

↳ owned solely by owner.

↳ legally Business and personal are same.

↳ Accounting: Different from business

② Partnership (more then one owners)

↳ A type of P.Ship

↳ legally all owners are same.

↳ Accounting → diff from business.

③ Corporation. ↳ (limited liability)

↳ is an artificial person

↳ legally different from owners → Treated as a person.

↳ called Shareholders

↳ owners. ↳ Accounting

50,000

↳ House rent

↳ from rest.

cash acc	credited 50k
	debited.
Personall use (Drawing acc)	50k

↳ Increase in drawing is debitted.

(deal with personal person as an outsider)

BI sheet

cash 50k ↓

equity ↓ 50k

Transaction vs Event

Transaction: Can Quantify.

eg Bus bought for 1 mill

Event: Can't Quantify.

eg FAST hires Teacher.

↳ Impact is to be

↳ can't say

↳ can't record an event as an entry.

↳ can't make accounting entry

Other ways to record → letter, email memo.

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Start making transactions today.

Guy - new business

Income

owner's equity

owner's claim on an investment money.

Date	A/c Title / description	Dr	Cr
1-1-2021	cash a/c	80,000	
	Equity A/c		80,000
	The owner has invested 80,000$ into the business.		

Assets, liabilities, Equity, Drawing, Revenue, & Expenses.

(2) $6,000 rent in advance for six months

Cash a/c ↓

↳

Date	A/c Title	D	C
1-1-2021	- - - -	- - - -	
	- - -		- - - -
1-	Prepaid rent account	6,000	
	Cash Acc		6000
as need to indicate month and year.			

Assets

Cash	~~80,000~~ 74,000
Pre-paid	6,000
	80,000

L & E

Liab $0

O.Eq 80,000

80,000

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(3) Business purchases tools and equipment for $13,800 on credit due in 60 days.

↳ A/c payable (Liability) → Cr

↳ (Asset A/c) → Deb.

Tools and Equipment

Date	A/cs	D	Cr
3-	Tools & Equip Account payable (oral)	$13,800	13,800

↳ Try all 3 on B/Sheets

entries → general journal.

(4) Business purchases a piece of land for $52,000

↳ Cash A/c → Cr , land↑ → Debit
(Asset) (Asset)

↳ no net change in Asset column on B/Sheet.

---

(5) purchases building at 36,000$

↳ $6,000 in cash.
↳ $30,000 → notes payable → 3 months.

↳ N/Pay ↑ → , Building↑ → Deb , cash↓ → Cr
↳ (30,000) (36,000) (6,000)
↳ Cr

→ Enter into B/Sheet.

Building Acc	36,000	
Cash Acc		6,000
N/Pay		30,000

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sales → selling service → not it's equipment.

⑥ Business sells those tools & Equip to another business for 1800$ on credit.

↳ Tools & Eq ↓ (1,800)
↳ credited

↳ Accounts Recievable ↑
↳ debit (1,800)

Recievable
↳ Asset

Payable
↳ liab.

↳ not mentioned if oral or written.

↳ Try on BL sheet
↳ no need change in total assets.

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(7) Reciives 600 after some days from that Business

		debit	Cr
25-	Cash A/C	1600	
	Accounts Receivable		1600.

↳ Total assets Remain Same.

(8) 6,800 is leaving to the business ~~2674~~ as partial payment for transaction (3).

26-	A/ payable A/c	6,800	
	Cash A/c		6,800

(9) Revenue of 2200,

30-	Cash A/c	2,200	
	Revenue A/c		2,200.

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(10) Payment of utilities, salaries.
$200 $1200

Sol -

	d	c
~~Cash A/c~~		~~1400~~
Utility Expense	200	
Salary Exp.	1200	
Cash A/c		1400

(11) Payment of 360$ to newspaper company for ad to be published in month of Feb.

Sol - Promotion expense $360
~~Cash A/c~~ Cash A/c $360

Promo Exp Expense or Asset

(12) Purchased Radio ad 470$, payable within 30 days in Feb.

~~Cash A/c~~, Promo Exp ↑ Acc payable ↑

2- promo expen A/c $470

A/payable $470

---

(13) Purchase Shop supplies

* Accounting period

↳ Time period at the end of which business produce financial statements.

* Matching Principle

↳ Only subtract those Expenses from revenue which are used in generating this revenue for a particular Accounting period

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Revenue
- Expenses

Net Income.

(13) Purchase supplies (lubricants, oil) etc of 1400$ due in 30 days.
Supplies will run for 3 to 4 months.
↳ Accounting period.

4- Shop Supply A/c 1400
A/payable A/c 1400

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(14) Business collected 4,980$ cash for rep services from airport shuttle services.

		deb	cr.
15 –	cash A/c	4,980	
	Rev A/c		4,980

(15) The owner with drew 3100$ cash for personal exp.

		deb	cr
25 –	Drawing A/c	$3100	
	Cash A/c		$3100

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Accounting period?
matching principle?

Accrual Basis? of Accounting
Cash Basis? of Accounting.
Realization Principle?

(16) Bus has built another company for services rendered/given

pay 5,400 on 10th march.

Rev ↓ 5400

A/receivable ↑ 5400

Accrual Basis

(17) paid salaries to employees for month of feb 49,000

Salary Expenses A/c $4900

Cash A/c $4900

Book? Important