**Accounting:**

Accounting is the 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 a financial character and interpreting the results thereof.”

**Nature of Accounts:**

1. Assets
2. Expenses
3. Revenue
4. Liabilities
5. Proprietorship/ owner

Capital /Drawing

1. **ASSETS:- (Economical Resources)**

**Current Assets: (short period)**

* Cash
* Marketable Securities (share, bonds etc)
* Bill Receivable
* Notes Receivable
* Accounts Receivable
* Inventory (Merchandise)
* Office Supplies (Stationary )
* Prepaid (Advance Payment )
* Investment

**Non Current Assets: (Fixed Assets ) (For long Period)**

* Land
* Building
* Equipment
* Machinery
* Automobile
* Furniture
* Other assets

1. **Liabilities : (Outstanding Expense, Obligation, Debt) )**

**Current Liabilities**

* Bills Payable
* Notes Payable
* Accounts Payable
* Salaries Payable
* Wages Payable
* Unearned Revenue
* Bank Loan

**Non Current Liabilities:**

* Mortgage Payable
* Long Term Loan

1. **Expenses :**

* Purchases (Goods purchase for the purpose of resale)
* Transportation Expenses
* Custom Duties
* Advertising Expenses
* Sales Man Salary Expenses
* Trading Expense
* Rant Expenses
* Telephone Expenses
* Entertainment Expenses
* Conveyance Expenses
* Postage & Telegram Expenses
* Depreciation Expenses (de value of assets day by day)
* Bad Debts Expenses (Uncollectable )
* Insurance Expenses

1. **Revenue : (Income)**

* Sales, Fees, Commission, Rent, Interest

1. **Owner Equity:**

* **Capital** (Investment in Business from Owner i.e. Cash, Merchandise, Furniture, Equipments e.t.c.
* **Drawing** (Withdraw Cash / Merchandise for Personal Use)

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**Accounting Equation**

Accounting equation is a statement of equality between debit and credit. The accounting equation signifies that the assets is a business are always equal to the liabilities and capital. The relationship that exists among assets , liabilities and the capital is expressed as under:

Total Assets = Total Liabilities

OR

Total Assets = total Liabilities + Capital

OR

Total Assets –Total Liabilities = Capital

**ASSETS = LIA (DEBT) + CAPITAL**

100,000 = 30,000 + 70,000

**CAPITAL = ASSETS - LIA**

70,000 = ????? - 30,000

**LIA = ASSETS - CAPITAL**

30,000 = 100000 - ?????

**Q.1 ACCOUNTING EQUATION:**

1. Amir Iqbal commenced business with cash Rs. 80,000.
2. Purchased goods on credit Rs. 20,000.
3. Withdrew cash for private use Rs, 2,000.
4. Goods costing Rs. 15,000 are sold for Rs. 20,000 on account.
5. Purchased furniture Rs. 1,500.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **SNO** | **ASSETS** | | | |  | **LIA** | **OWNER EQUITY** |
|  | **CASH** | **STOCK** | **A/C REC** | **FURNITURE** |  | **A/C PAY** | **CAPITAL** |
| 1. | 80000 |  |  |  | = |  | 80000 |
| 2. | 80000 | 20000 |  |  | = | 20000 | 80000 |
| 3. | (2000)  78000 | 20000 |  |  | = | 20000 | (2000)  78000 |
| 4. | 78000 | (15000)  5000 | 20000 |  | = | 20000 | +5000  78000 |
| 5. | (1500)  76500 | 5000 | 20000 | 1500 |  | 20000 | 83000 |
|  | **103000** | | | | **=** | **103000** | |

**Q.2 ACCOUNTING EQUATION:**

1. Kashif Iqbal commenced business with cash Rs. 50,000.
2. Purchased goods for cash Rs. 8,000.
3. Sold goods costing Rs. 6,000 to 9,000.
4. Purchased furniture Rs. 20,000.
5. Took a loan for Rs, 10,000 from bank.
6. Paid salary Rs. 4,000 and insurance Rs. 2,000.
7. Received rent Rs. 3,000 and interest Rs. 1,500.
8. Paid Rs. 800 as premium of life insurance policy.
9. Purchased a bicycle for the owners’ son Rs. 1,200.
10. Depreciate furniture by Rs. 300.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **ASSETS** | | | |  | **LIA** | | **OWNER EQUITY** |
|  | **CASH** | STOCK | **A/C REC.** | **FURNITURE** |  | **A/C PAY** | **BANK**  **LOAN** | **CAPITAL** |
| 1. | 50,000 |  |  |  | = |  |  | 50,000 |
| 2. | (8000)  42000 | 8000 |  |  | = |  |  | 50,000 |
| 3. | 42,000 | (6000)  2000 | 9000 |  | = |  |  | +3000  53000 |
| 4. | (20,000)  22,000 | 2000 | 9000 | 20,000 | = |  |  | 53,000 |
| 5. | +10,000  32,000 | 2,000 | 9000 | 20000 | = |  | 10,000 | 53000 |
| 6. | (4000)  (2000)  26000 | 2000 | 9000 | 20000 | = |  | 10000 | (4000)  (2000)  47000 |
| 7. | +3000  +1500  30,500 | 2000 | 9000 | 20000 | = |  | 10000 | +3000  +1500  51,500 |
| 8. | (800)  29,700 | 2000 | 9000 | 20000 | = |  | 10000 | (800)  50,700 |
| 9. | (1200)  28,500 | 2000 | 9000 | 20000 | = |  | 10000 | (1200)  49,500 |
| 10. | 28,500 | 2000 | 9000 | (300)  19,700 | = |  | 10000 | (300)  49,200 |
|  | **59200** | | | | **=** | **59200** | | |

**Q.3 ACCOUNTING EQUATION:**

1. Atif Iqbal commenced business with cash Rs. 90,000.
2. Purchased goods for cash Rs. 14,400.
3. Sold goods costing Rs. 10,800 for Rs. 16,200.
4. Purchased furniture Rs. 36,000.
5. Took a loan for Rs. 18,000 from bank.
6. Paid salary Rs. 7,200 and insurance Rs. 3,600.
7. Received Rent Rs. 5,400 and interest Rs. 2,700.
8. Paid Rs. 1,440 as premium of life insurance policy.
9. Purchased a bicycle for the owners’ son Rs. 2,160.
10. Depreciate furniture by 540.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE** | **ASSETS** | | | |  | **LIA** | | **OWNER EQUITY** |
|  | **CASH** | STOCK | **A/C REC.** | **FURNITURE** |  | **A/C PAY** | **BANK**  **LOAN** | **CAPITAL** |
| 1. | 90000 |  |  |  | = |  |  | 90,000 |
| 2. | (14400)  75600 | 14,400 |  |  | = |  |  | 90000 |
| 3. | 75600 | (10800)  3600 | 16200 |  | = |  |  | +5400  95400 |
| 4. | (36000)  39600 | 3600 | 16200 | 36000 | = |  |  | 95400 |
| 5. | +18000  57600 | 3600 | 16200 | 36000 | = |  | 18000 | 95400 |
| 6. | (7200)  (3600)  46800 | 3600 | 16200 | 36000 | = |  | 18000 | (7200)  (3600)  84600 |
| 7. | +5400  +2700  54900 | 3600 | 16200 | 36000 | = |  | 18000 | +5400  +2700  92700 |
| 8. | (1440)  53460 | 3600 | 16200 | 36000 | = |  | 18000 | (1440)  91260 |
| 9. | (2160)  51300 | 3600 | 16200 | 36000 | = |  | 18000 | (2160)  89100 |
| 10. | 51300 | 3600 | 16200 | (540)  35460 | = |  | 18000 | (540)  88560 |
|  | 106560 | | | | **=** | 106560 | | |

**Q.4 ACCOUNTING EQUATION:**

1. Mr. Ahmed starts the business and invests a sum of Rs. 60,000.
2. He purchased furniture for Rs. 6,000.
3. He purchased goods on credit for Rs.14,000.
4. He sold goods for Cash/ On Credit or on account Rs. 12,000.
5. Cash paid to the creditors Rs. 6,000.
6. Cash paid for office rent Rs. 4,000.
7. Salary Rs. 4,000 remains outstanding.
8. Goods costing Rs. 2,000 are sold for cash Rs. 3,000.
9. Withdrew cash for personal use Rs. 10,000.

Try Yourself

**Rules for Determining cash or credit Transaction:**

The following are the rules for deciding whether a transaction is for cash or on credit.

Cash Purchases, Cash Sales and all Transactions where the word “Paid“ or “Received” is mentioned are treated as cash transaction. For example, Salary Paid, Goods Sold for cash and so on.

When a Personal name or the name of firm (or the word “on account“, or “on credit” mentioned in the transaction, it will be treated as credit transaction. For example, goods Sold to Mr. Saqib for Rs. 50,000.

When both cash and personal name are mentioned in the transaction, it will be treated cash transaction. For example, goods sold to Mr. Yaseen for cash Rs.1,000.

**Rule of Debit & Credit**

(0.75 INCH) (0.5 INCH( 1 INCH 1 INCH

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **PARTICULAR** | **P.R.** | **DEBIT** | **CREDIT** |
|  | Assets (Current/ Fixed) |  | Increase | Decrease |
|  | Expenses |  | Increase | Decrease |
|  |  |  |  |  |
|  | Liabilities (Current/ Fixed) |  | Decrease | Increase |
|  | Sales/Income/Revenue/Fee/ |  | Decrease | Increase |
|  | Owner Equity (Capital, Drawing) |  | Decrease | Increase |

**Steps of Analysis**

1. Accounts involve / Title.
2. Nature of Accounts.
3. Increases & Decrease.
4. Debit & Credit.
5. Amount.

For example :

1. **Investment of Cash in the business Rs. 60,000 .**
2. Cash Capital
3. *Assets Owner Equities*
4. *Increases* Increases
5. Debit/ Dr. Credit/ Cr
6. 60,000 60,000
7. **Purchase furniture with cash Rs.20,000.**

Cash Furniture

Assets Assets

Decrease increase

Cr Dr

20,000 20,000

1. Sale building in cash Rs.10,00,000.

Cash Building

Assets Assets

Increase decreases

Dr Cr

10,00,000 10,00,000

1. Sale supplies (Office Stationary) on account Rs. 2,000.

A/c Rec. Sale

Assets Revenue

Increase Increases

Dr Cr

2,000 2,000

**Sale On Credit/ on Accounts A/c Receivable (Assets) Debtor (Ahmed)**

**Purchase On Credit/ On Accounts A/c Payable (Liability) Creditor (Ali)**

**Now try yourself as above.**

1. Commenced business with an investment of cash Rs. 30,000 and furniture worth Rs. 20,000.

CASH FURNITURE CAPITAL

A A O.E.

+ + +

DR DR CR

30000 20000 50000

1. Purchase equipment for cash Rs. 2,000.

Equipment Cash

1. Invested cash Rs. 30,000 and furniture Rs. 13,000 in the business .

Cash Furniture Capital

A A O.E.

+ + +

DR DR CR

30000 13000 43000

1. Purchase supplies for cash Rs. 1,700.
2. Purchased equipment on account Rs.2,500.

Equipment A/c Pay

A L

+ +

DR CR

1. Purchase supplies on account 2,500.

Supplies A/c Pay

1. Cash/ A/c Rec. sales for the day Rs.3,000.

Cash/Ac Rec Sale

A R

+ +

Dr CR

1. Purchased supplies for cash Rs.1,500.

Supplies Cash

1. Paid rent for October Rs. 1,000

Rent Exp Cash/ Account Pay

E A/ L

+ -/ +

Dr Cr.

1. Wages paid of employer Rs.2,700

Wages Exp Cash

1. Withdrew cash for personal use Rs.2,000

Drawing cash/ Merchandise/ Furniture/ Vehicle

O.E. A

- -

DR CR

2000 2000

1. Paid miscellaneous expenses Rz.550

Misc. Exp. Cash

E A

+ -

Dr Cr

1. Paid creditors (Ali) on account Rs. 1,400

A/c Pay Cash

Lia Asset

- -

Dr Cr

1400 1400

1. Received cash from Tariq (Debtor) on account Rs. 4,000

Cash A/c Receivable

A A

+ -

Dr Cr

4000 4000

1. Paid for insurance Rs. 900 cash.

Insurance Exp. Cash

E A

+ -

Dr. Cr

1. Started business with cash Rs.18000.

Cash Capital

A O.E.

+ +

Dr. Cr

18000 18000

1. Purchase merchandise/ Goods/ Inventory/ Stock on account Rs. 6,000

Purchase/ Inventory A/c Pay.

Exp./ Assets L

+ +

Dr. Cr.

6000/- 6000/-

1. Paid transport Exp. on account Rs.6,000.

A/c Pay. Cash

L A

- -

Dr. Cr

6000 6000

1. Sold merchandise on account Rs.12,000.

A/c Rec. Sales

A R

+ +

Dr Cr

1. Purchased store supplies for cash Rs. 1500
2. Paid salaries expense for cash Rs.2,000
3. Paid advertising expense Rs.2,000

**Sale Furniture on Cash Rs. 6000.**

Cash Sales

A R

+ +

DR CR

6000 6000

**Sale Furniture on credit Rs. 6000.**

A/c Receivable Sales

A R

+ +

DR CR

6000 6000

1. Received cash from customer on account Rs. 6,000

Cash A/c Receivable

A A

+ \_

DR CR

6000 6000

1. Paid creditors on account Rs.3,000.

A/c Pay Cash

L A

- -

Dr Cr

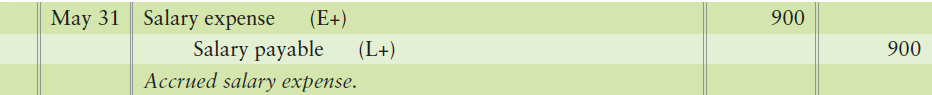
1. Withdrew cash for personal use Rs.1,000
2. Sold merchandise on account Rs.12,000

Purchase (on account A/c Payable (Liability) Creditor (Ali)

On credit)

Sale (on account A/c Receivable (Assets) Debtors (Ahmed)

On credit)



Adjusting Entries

June 5 Salary Payable (L-) 900

Cash (A-) 900

Financial Accounting

B.Com I

Petty Walla Publishers

**ACCOUNTING LIFE CYCLE**

1. Journal General
2. T Accounts OR General Ledger
3. Trial Balance
4. Financial Statement
5. Income Statement
6. Balance Sheet
7. Retain Earning
8. Cash Flow Statement
9. Fund Flow Statement