

# **ACCOUNTING (FINANCIAL, COST, MANAGEMENT)**

## *MEANING*

IT IS THE RECORDING - JOURNAL

CLASSIFYING - LEDGER

SUMMARISING - TRIAL BALANCE

**INCOME STATEMENT – PROFIT/LOSS**

**BALANCE SHEET/ POSITION STATEMENT – ASSETS  
& LIABILITIES**

**STATEMENT OF CHANGES IN EQUITY – RETAINED  
EARNINGS**

**CASH FLOW STATEMENT – INFLOW & OUTFLOW  
OF CASH**

OF **FINANCIAL TRANSACTIONS**, ANALYSE AND  
INTERPRET FINANCIAL STATEMENTS FOR DECISION  
MAKING AND REPORTING TO THE STAKEHOLDERS.

## *STAKEHOLDERS*

SHAREHOLDERS/ INVESTORS

SUPPLIERS/ CREDITORS

BANKERS

GOVERNMENT

CUSTOMERS

SOCEITY

EMPLOYEES

AUDITORS

## *FINANCIAL STATEMENTS*

1.INCOME STATEMENT

2.BALANCE SHEET

3.STATEMENT OF RETAINED EARNINGS

4.STATEMENT OF CASH FLOWS

## **Basic Terminologies**

**Asset:** Asset is a **resource owned by the business** with the purpose of using it for generating future profits. Assets can

be **Tangible and Intangible**. Tangible Assets are the Capital assets which have some physical existence. They can, therefore, be seen, touched and felt, e.g. Plant and Machinery, Furniture and Fittings, Land and Buildings, Books, Computers, Vehicles, etc. The capital assets which have no physical existence and whose value is limited by the rights and anticipated benefits that possession confers upon the owner are known as Intangible Assets. They cannot be seen or felt although they help to generate revenue in future, e.g. Goodwill, Patents, Trade-marks, Copyrights, Brand Equity, Designs, Intellectual Property, etc.

TRANSACTION – BUSINESS ACTIVITY WHICH INVOLVES EXCHANGE OF MONEY OR MONEY'S WORTH.

GOODS – COMMODITIES WHICH ARE BOUGHT AND SOLD – STOCK/INVENTORY

1. STOCK OF RAW MATERIALS
2. STOCK OF WORK IN PROGRESS
3. STOCK OF FINISHED GOODS

## FIXED ASSETS/ NON CURRENT ASSETS

AN ASSET HELD **NOT FOR** THE PURPOSE OF **RESALE** BUT IS HELD FOR THE PURPOSE OF **GAINING REVENUE OVER A PERIOD OF TIME** AND IS LONG TERM IN NATURE IS CALLED AS A FIXED ASSET.

EXAMPLES – LAND & BUILDING, MACHINERY, EQUIPMENT, FURNITURE, FITTINGS, .....

## CURRENT ASSETS

AN ASSET HELD FOR THE PURPOSE OF RESALE AND IS **SHORT TERM** (LESS THAN 1 YEAR) IN NATURE IS CALLED AS A CURRENT ASSET. CURRENT ASSETS ARE **LIQUID IN NATURE**.

EXAMPLES – CASH, RECEIVABLES, INVENTORY, PREPAID EXPENSES

## LIABILITY

IT IS AN **OBLIGATION** WHICH IS FINANCIAL IN NATURE AND WILL BE SETTLED ON A FUTURE DATE. IT IS THE MONEY THAT BUSINESS **OWES** TO THE OTHER PARTIES

**CURRENT LIA** – WHEN THE BUSINESS OWES TO OTHER PARTIES FOR A SHORT PERIOD OF TIME. EXAMPLE – TRADE CREDITORS, OUTSTANDING EXPENSES, PROVISIONS

**LONG TERM/ NON –CURRENT LIA** – BANK LOAN, DEBENTURES, LONG TERM LOANS

**ACCOUNTING EQUATION =**  
**ASSETS = LIABILITIES + CAPITAL**

### **BALANCE SHEET**

<b>LIABILITIES AND SHARE CAPITAL</b>		<b>ASSETS</b>	
<b>SHARE CAPITAL</b>		<b>FIXED ASSETS/ NON- CURRENT ASSETS</b> Land & building Plant & Machinery Furniture	

		Motor vehicles	
<b>RESERVES &amp; SURPLUS</b> <b>Share Premium</b> <b>General reserve</b> <b>Dividend equalisation reserve</b> <b>Capital reserve</b>		<b>LONG TERM INVESTMENTS</b>	
<b>LONG TERM LIA</b>		<b>CURRENT ASSETS</b> Cash or cash at bank Short term investments Marketable securities (money market instruments) Accounts receivables (bills receivables & Debtors) <b>Stock/ Inventory</b> <b>Prepaid expenses</b> <b>Accrued incomes</b>	
<b>CURRENT LIABILITIES</b> <b>ACCOUNT PAYABLES</b>			

(Bills payable & Creditors)			
Bank Overdraft			
OutStanding expenses			
PROVISIONS			

WORKING CAPITAL – AMOUNT REQUIRED FOR THE DAY TO DAY OPERATIONS OF THE BUSINESS

**W C =CURRENT ASSETS – CURRENT LIABILITIES**

**CAPITAL** - Generally refers to the amount ( cash or any other assets) invested in an enterprise by its owner. IT IS OWNER’S FUNDS OR INTERNAL LIABILITY.

RESERVES & SURPLUS – RESERVE IS THE AMOUNT THAT IS SET ASIDE BY THE BUSINESS FOR FUTURE GROWTH. EXAMPLES – GENERAL RESERVE, DEBENTURE REDEMPTION RESERVE, **DIVIDEND** EQUALISATION RESERVE, P&L A/C

**PROVISION** – AMOUNT SET ASIDE BY THE BUSINESS FROM THE PROFITS FOR A **KNOWN CONTINGENCY /LOSS**. EXAMPLES – PROVISION FOR DEPRECIATION, PROVISION FOR TAXATION, BAD DEBTS  
.....**PROVISION IS A CURRENT LIABILITY.**

**DEPRECIATION** – IT IS GRADUAL DECREASE IN THE VALUE OF THE ASSET DUE TO WEAR AND TEAR OVER A PERIOD OF TIME.

**DRAWINGS** – **WITHDRAWAL** OF MONEY/ GOODS FROM THE BUSINESS BY SOLE – PROPRIETOR / PARTNERS FOR **PERSONAL USE**.

**INVESTMENTS** - Expenditure on assets held to earn interest, income, profit, dividend or other benefits.

Long – term investments – Investments that are made for more than one year.

Short – term investments – Investments that are made for less than one year. They are shown under Current Assets.



**DEBTOR** - The sum total or aggregate of the amounts which the customer owes to the business for purchasing goods on credit is known as **Sundry Debtors or Trade Debtors or Book-Debts** or Debtors. Debtors are shown under Current Assets. Debtors arises in case of Sales.

**GOOD DEBTS** - debts which are sure to be realized.

**DOUBTFUL DEBTS** – debts which may or may not be realized.

**BAD DEBTS** – debts which cannot be realized.

**CREDITOR / TRADE CREDITORS /SUNDRY CREDITORS-**

A creditor is a person to whom the business owes money or money's worth. e.g. money payable to supplier of goods or provider of service. Creditors are generally classified as Current Liabilities. Creditors arises in case of purchase of goods.

**ACCRUAL:** Recognition of revenues and costs as they are earned or incurred. It includes recognition of transaction relating to assets and liabilities as they occur irrespective of the actual receipts or payment.

**COST:** Aggregate of material, labour and **expenses** of a product/ service. The amount of expenditure incurred on or attributable to a specified article, product or activity.

**EXPENSES:** A cost relating to the operations of an accounting period.

**REVENUE:** Total amount received (RECEIPTS)from **sales** of goods/services.

**INCOME:** Earned out of Investments made in assets. BENEFIT GAINED OUT OF INVESTMENT MADE IN ASSETS.

Example – Interest, dividend, rent.....

**LOSS:** Excess of costs/expenses over revenue.

**GAIN/PROFIT:** The excess of revenue over expenses during a particular accounting period.

**PROFIT= SALES - COST**

**LOSS – COSTS ARE IN EXCESS OF THE SALES**