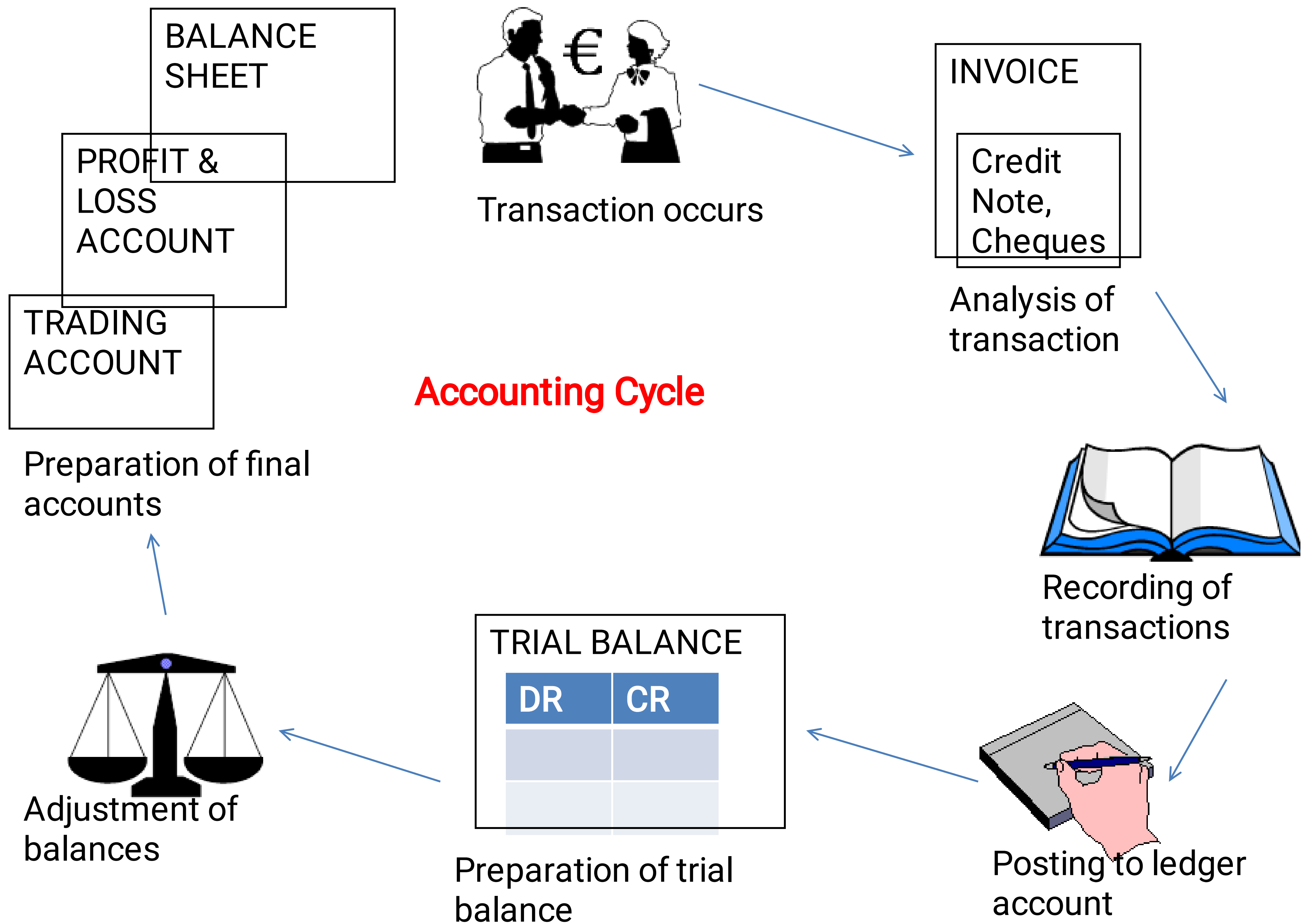
CEV INTEGRAL APPRAISERS FOUNDATION

Book Keeping & Accountancy
Asset Class
Plant & Machinery - Land & Building


Accounting Cycle
Transaction occurs
INVOICE
Credit Note, Cheques
Analysis of transaction
Recording of transactions
Posting to ledger account
TRIAL BALANCE
DR
CR
Preparation of trial balance
Adjustment of balances
TRADING ACCOUNT
PROFIT & LOSS ACCOUNT
BALANCE SHEET
Preparation of final accounts

Book-Keeping – Meaning

- Book-keeping is the art of proper and systematic identification and recording business transactions in the maintenance of book of accounts (such as journal, ledger, cash and subsidiary books).
- It is often routine and clerical in nature. The activities of book-keeping include recording in the journal, posting to the ledger and balancing of accounts.
- Process of book keeping involves the following steps
- Identifying accounting transactions (which may be money or money worth transactions with documentary evidence.
- Credit transactions are money worth transactions).
- Records Initial accounting transactions
- Preparation of ledger accounts
- Preparation of trial balance

Objectives of book-keeping

- To have permanent record of all the business transactions.
- To keep records of income and expenses in such a way that the net profit or net loss may be calculated.
- To keep records of assets and liabilities in such a way that the financial position of the business may be ascertained.
- To know the names of the customers and the amount due from them.v. to know the names of suppliers and the amount due to them.
- To have important information for legal and tax purposes.

Double Entry Bookkeeping
(Principle of Balance)

The accounting equation is the very heart of a double entry accounting system

Assets - Liabilities = Equity + (Income – Expenses)

For every change in value of one account in the Accounting Equation, there must be a balancing change in another.

This concept is known as the Principle of Balance

You will always be concerned with at least 2 accounts, Necessary to keep the accounting equation balanced

DIFFERENCE BETWEEN ACCOUNTANCY AND BOOKKEEPING.

- BOOK KEEKPING IS MERELY RECORDING THE BUSINESS TRANSACTIONS IN BOOKS AND LEDGERS .
- ACCOUNTANCY IS WIDER CONCEPT: COMPILATION OF ACCOUNTS IN SUCH A WAY THAT ONE IS IN A POSITION TO UNDERSTAND STATE OF AFFAIRS OF BUSINESS.
- USERS OF FINANCIAL STATEMENTS ARE INCOME TAX DEPT., GST DEPARTMENT SHAREHOLDERS, INVESTORS,BANKS AND FIS AND SO ON APART FROM MANAGEMENT OF ENTITY FOR MAKING POLICY DECISIONS.
- IT IS IN THE INTEREST OF ALL THAT FINANCIAL STATEMENTS REFLECT TRUE AND FAIR VIEW OF STATE OF AFFIAIRS OF A BUSINESS ENTITY.

ACCOUNTANCY

- ACCOUNTANCY INVOLVES:
- SYSTAMATIC (including regulatory compliance) CLASSIFICATION OF BUSINESS TRANSACTIONS IN TERMS OF MONEY AND FINANCIAL CHARACTER.
- SUMMARIZING : TRIAL BALANACE AND B/S
- INTERPRETING THE FINANCIAL TRANSACTIONS.

PURPOSE OF ACCOUNTANCY

- TO KEEP A SYSTEMATIC RECORD
- TO ASCERTAIN THE RESULTS OF OPERATIONS
- TO ASCERTAIN FINANCIAL POSITION OF BUSINESS.
- TO FACILITATE RATIONAL DECISION MAKING
- TO RAISE FINANCE.
- TO SATISFY REQUIREMENT OF LAW AND USEFUL IN MANY RESPECTS.

Books of prime entry & Subsidiary Books

- Books of prime entry are the books where transactions are recorded for the first time. Involved
- Sales day book - record credit sales
- Purchase day book : records credit purchase
- Sales returns day book: records credit note raised
- Purchase returns day book :records credit notes received from suppliers.
- Journals are another book of prime entry used to record accounting transactions. It records transactions that do not have any official form of documentation (invoice, credit note or receipt) A journal is used to record the sale of fixed assets, writing off bad debts, correction of errors and entering opening balances to a business

JOURNAL

- JOURNAL RECORDS EACH AND EVERY TRANSACTION BY WAY OF JOURNAL ENTRY.
- BUT TO FIND OUT A TRANSACTION EFFECTING A PERSON, EXPENSES, INCOME OR ASSET, LIABILITY ONE HAS TO TURNOVER ALL PAGES OF JOURNAL.
- HENCE TRANSACTIONS ARE POSTED FROM JOURNAL TO PARTICULAR PAGES OF LEDGER.

JOURNAL FORMAT

DATE	PARTICULARS	L.F	DEBIT RS.	CREDIT RS.

CASH BOOK

- CASH BOOK KEEPS RECORDS OF ALL CASH TRANSACTIONS I.E CASH RECEIPTS AND CASH PAYMENTS. ALL RECEIPTS ARE RECORDED ON RIGHT SIDE AND ALL PAYMENTS ON LEFT SIDE.
- CASH BOOK IS ALSO A BOOK OF ORIGINAL ENTRY.

CASH BOOK FORMAT

DR.													CR
DATE	PART ICUL ARS	VR. NO	L.F	CAS H Rs.	BAN K Rs.	DISC OUN T	DATE	PART ICUL ARS	VR. NO.	LF	CAS H Rs.	BAN K Rs.	DISC OUN T

RECORD KEEPING BASIS

- RECORDING: JOURNALISING AS AND WHEN TRANSACTION TAKES PLACE. JOURNAL IS BOOK OF ORIGINAL OR FIRST ENTRY.
- CLASSIFYING: ALL ENTRIES IN JOURNAL OR SUBSIDIARY BOOKS ARE POSTED TO LEDGER ACCOUNT(POSTING) TO FIND OUT AT A GLANCE THE TOTAL EFFECT OF ALL SUCH TRANSACTIONS. LEDGER IS BOOK OF SECONDARY ENTRY.
- SUMMASRISING: LAST STAGE IS TO PREPARE THE TRIAL BALANCE AND FINAL ACCOUNTS WITH A VIEW TO ASCERTAIN THE PROFIT OR LOSS DURING PARTICULAR PERIOD.
- IT IS CUSTOMARY TO USE TO AND BY WHILE POSTING LEDGER.
- BALANCING AN ACCOUNT MEANS EQUALIZING TWO SIDES.
- IF DEBIT SIDE OF ACCOUNT EXCEED CREDIT SIDE, DIFFERENCE IS PUT ON CREDIT SIDE AND IT IS SAID TO HAVE DEBIT BALANCE AND VICE VERSA..

LEDGER

DR							CR
DATE	PARTICULARS	J.F	AMOUNT RS	DATE	PARTICULARS	J.F	AMOUNT RS.

Questions.

- CREDIT BALANCE IN CAPITAL ACCOUNT IS LIABILITY OR AN ASSET:
- A. LIABILITY
- B. A REVENUE
- C. AN EXPENSE
- D. NONE OF THESE.

QUESTION

- AMOUNT BROUGHT IN BY PROPRIETOR IN BUSINESS SHOULD BE ADDED TO
- A.DRAWINGS ACCOUNT
- B.CAPITAL ACCOUNT OF PROPRIETOR.
- C.ASSET ACCOUNT
- D. NONE OF THE ABOVE

QUESTION

- WHAT IS JOURNAL ENTRY
- A. ORIGINAL ENTRY
- B. DOUBLE ENTRY
- C DUPLICATE ENTRY
- NONE

QUESTION

- TRANSACTION IN BANK COLUMN ON CREDIT SIDE OF THREE COLUMNAR CASH BOOK INDICATE
- A. AMOUNT PAID FROM THE BANK A/C.
- B.AMOUNT DEPOSITED IN BANK
- C.BOTH A AND B
- D. NONE

Adjusting and closing entries.

- While preparing trading and profit and loss account all expenses and income for the full period are to be taken into consideration. If expenses have been incurred but not paid during that period , liabilities for unpaid amount should be created before the accounts can be said to show the actual profit and loss. All expenses and income should properly be adjusted through accounting entries.

Adjusting and closing entries.

- Trial balance is prepared from the books of accounts of organiztion. Final accounts are the final process of accounting. Once the trial balance is prepared the books are half way closed.
- Now all adjusting entries passed at the time of preparing the final accounts have dual effect i.e both debit and credit.
- Hence all adjusting entries passed after Trial balance drawn will have two effects.

Final Accounts
(Financial Statements)

LEARNING OBJECTIVES

Introduction to Final Accounts

Preparation of Final Accounts—An Introduction

Preparation of Final Accounts for Sole Proprietorship Concern

Difference Between Trial Balance and Balance Sheet

Difference Between Trading Account and Manufacturing Account Difference Between Trading Account and Profit & Loss Account Difference Between Income Statement and Balance Sheet

Final Accounts for Partnership Firm

Final Accounts for Companies

INTRODUCTION TO FINAL ACCOUNTS

Final accounts are statutory requirements for all type of registered organizations. They are popularly known as Financial Statements.

- While the Trial Balance checks the accuracy of ledger balances, the final account reveals two facts:

- Whether the business is in profit or loss during the period covered by the Trial Balance. A Trading and Profit & Loss account also known as income statement is prepared for this purpose.

- What is the financial position (financial position means picture of assets and liabilities) of the business? This is judged by preparing a balance sheet for the business.

- Thus, income statement represents the summary of all the expenses and incomes occurred during the financial year whereas balance sheet represents the financial position of the concerned organization at a particular point of time, usually at the end of financial year *i.e.,* 31^{st} March (in India, financial year starts from 1^{st} April to 31^{st} March).

PREPARATION OF FINAL ACCOUNTS—AN INTRODUCTION

- Preparation of final accounts is governed by different Acts, Laws, Standards and Principles like Income tax law, Company Act, Partnership Act, Accounting Standards (AS), Generally Accepted Accounting Principles (GAAP) etc., used for valuation of financial transactions/events to standardize accounting information, which in turn depends upon type of organization concerned. In other words, since different types of organizations operates under different legal framework, the methodology/procedure for preparation of final accounts will change accordingly.
- Again, there are three main categories of organizations on the basis of incorporation (Registration) *viz* .
- Sole proprietorship concern
- Partnership firm
- Joint stock companies

PREPARATION OF FINAL ACCOUNTS FOR SOLE PROPRIETORSHIP CONCERN

Dr.					Cr.
Particulars		Amount	Particulars		Amount
To Opening stock		——	By	Sales (less return)	———
To Purchases (less return)		——	**	By Gross loss b/d	———
To Direct wages		——			(Balancing fig.)
To Direct expenses		——			
l Carriage inward					
l Duty and clearing charges					
l Fuel and energy					
l Octroi duty	etc.				
To Gross profit (GP) b/d		———			
		(Balancing fig.)			
Total		=	Total		=
**To Gross loss	c/d	——	By Gross profit (GP) c/d		——
To General and administrative expenses		——-	By Other income		——-
l Salaries					
l Rent, rates and taxes			l Rent received		
l Stationary and printing			l Discount received (Cr.)		
l Telephone bill			l Sale of scrap material		
l General expenses			l Commission received		
l Trade expenses			l Interest received		
l Insurance premium			l Dividend received		
l Loss by fire, theft, etc.			l Bad debt recovered		
l Discount allowed					
l Office lighting			**By Net Loss b/d		——
l Depreciation					

Dr.			Cr.
Particulars	Amount	Particulars	Amount
I Bad debt written off			
I Repairs			
I Audit fee			
I Preliminary expenses written off etc.		** This will happen when total of debit is more than total of credit.	
To Selling and distribution expenses	——		
I Carriage outward			
I Packaging material			
I Salesman commission			
I Conveyance			
I Advertisement			
I Export duty etc.			
To Financial Expenses	———		
I Interest paid			
I Tax paid etc.			
To Net profit (NP) b/d	——— (Balancing fig.)		
Total	=	Total	=

The format for Income statement in case of manufacturing concern is as follows:

Manufacturing and Trading and P & L A/c for the year ——

Particulars Amount	***Particulars Amount***
To Opening stock WIP ——	By Sale of scraps ———
To Opening stock R/M ——	By Closing stock WIP* ———
To Purchases (R/M) —— Less Purchases return Less Closing stock R/M*	**By Cost of production b/d ———** **(balancing fig.)**
To Productive wages ——	(or cost of manufacturing)
To Manufacturing expenses ——	Cr.
•Coal, fuel and energy	
•Carriage inward	
•Import duty etc.	
•To Factory Overhead (FOH)	

Dr.		Cr.	
To Cost of production c/d	**——**	By Sales By Less sale return)	——
To Opening stock FG	——	Closing stock FG	——
To gross profit (GP) b/d (Balancing fig.)	**——**		
Total	=	**Total**	=

To general and administrative expenses	——-	**By gross profit (GP) c/d**	——
• Salaries		By other income	——-
• Stationary and printing		• Discount received (Cr.)	
• Telephone bill		• Sale of scrap material	
• General expenses		• Commission received	
• Trade/miscellaneous/ Sundry expenses		• Interest received	
• Loss by fire, theft etc.		• Insurance premium	
• Discount allowed		• Dividend received	
• Office lighting		• Bad debt recovered	
• Depreciation other than plant and machinery			
• Bad debt written off			
• Repairs and renewals excluding Factory			
• Audit fee			
• Preliminary expenses written off etc.			
To selling and distribution expenses	——	Contd...	
• Carriage outward			

Particulars	*Amount*	*Particulars*	*Amount*
• Packaging material			
• Salesman commission			
• Conveyance Dr.		Cr.	
• Advertisement			
• Export duty etc.			
To Financial Expenses	———		
• Interest paid			
• Tax paid etc.			
To Net Profit (NP) b/d	———		
(Balancing fig.)			
Total	=	**Total**	=

Vertical presentation of Income Statement in case of sole proprietorship concern Income Statement for the year ——

	Particulars	*Amount (Rs.)*
	Sales	——
Less	Cost of Goods Sold (COGS)	——
	Gross Profit (GP)/(Gross Loss) Trading A/c	——@
Less	Operating Expenses (OE)	——
	Operating Profit (OP)	——@
Add	Non-operating income/less non-operating losses	——
	Earning Before Interest and Tax (EBIT)	——@
Less	Interest	—— P & L A/c
	Earning Before Tax (EBT)	——@
Less	Tax	——
	Earning After Tax/Profit After Tax (PAT)/Net Profit (NP)	——@

The format for balance sheet is as follows: Balance Sheet as on ————

Particulars (Capital + Lilibilities)	*Amount*	*Particulars (Assets)*	*Amount*
Capital	——	Fixed Assets	———
Add Net Profit or Less Net Loss		·Land and building	
(as per P & L A/c)		·Plant and machinery	
		·Furniture	
Less drawings		·Fixture and fittings Investments	
Long-term loan	——	·Marketable securities Current assets	———
		Assets ·Cash in hand	
Current liability	——	·Cash at bank	———
· Trade creditors/sundry creditors (Crs)		·Trade debtors/sundry debtors (Drs)	
· Bills Payable (B/P)		·Bills Receivable (B/R)	
· Bank overdraft		·Prepaid expenses like Prepaid Rent/ Tax/Wages etc.	
· Outstanding expenses e.g. Outstanding Rent/Tax/Wages etc.			
Total	=	**Total**	=

DIFFERENCE BETWEEN TRIAL BALANCE AND BALANCE SHEET

Point of difference	*Trial balance*	*Balance sheet*
Objective	The objective of trial balance is to check the accuracy of ledger balances.	The objective of balance sheet is to present financial position at a given point of time.
Requirement	Trial balance is not a statutory requirement.	Balance sheet is a statutory requirement for every registered organization.
Coverage	It includes Expenses, Incomes, Liabilities and Assets.	It includes Liabilities and Assets only.
Time period	It is prepared whenever desired.	Normally it is prepared at the end of accounting period.
Closing stock	Normally Closing stock does not appear in trial balance.	Closing stock appear in balance sheet under Current asset group.

DIFFERENCE BETWEEN TRADING ACCOUNT AND MANUFACTURING ACCOUNT

Point of difference	Trading account	Manufacturing account
Objective	The objective is to know the Cost of Goods Sold (COGS).	The objective is to know the Cost of Production (COP)/Cost of Goods manufactured.
Balancing figure	The balancing figure is Gross Profit (GP) or Gross Loss.	The balancing figure is Cost of Production (COP)/Cost of Goods manufactured.
Sale of scrap	The sale of scrap does not appear in trading account.	The sale of scrap appears in manufacturing account on credit side.
Opening Stock (OS) and Closing Stock (CS)	It includes opening and closing stock of finished goods only.	It includes opening and closing stock of semi finished goods i.e. WIP and Raw Materials (R/M).

DIFFERENCE BETWEEN TRADING ACCOUNT AND PROFIT & LOSS ACCOUNT (P & L A/C)

Point of difference	Trading account	Profit and Loss account
Objective	The objective is to know the Cost of Goods Sold (COGS).	The objective is to know Operating Expenses (OE).
Balancing figure	The balancing figure is Gross Profit (GP) or Gross Loss.	The balancing figure is Net profit (NP) or Net loss.
Treatment of balancing figure	The balancing figure is transferred to P & L A/c.	The balancing figure is transferred to balance sheet on liability side adjusted to Capital A/c in case of Sole proprietorship concern.

FINAL ACCOUNTS FOR PARTNERSHIP FIRM

"Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

Partners carry business according to partnership deed.

- (*a*) The method of preparing final accounts of a partnership firm is not different from the one followed for the preparation of final accounts for a sole proprietorship concern.

- (*b*) There will be a separate capital account for each partner. The amount of profit or loss, drawings etc. will be all credited/added or debited/subtracted to that accounts.

FINAL ACCOUNTS FOR COMPANIES

- The monetary transactions of a limited company are recorded in the same manner as those of a sole trading concern or partnership firm. The special transactions related to formation of company are governed by provisions of Companies Act 1956 amended up to date. The general principles applicable to preparation of trading and profit and loss account as well as balance sheet of sole proprietorship concern also hold good in respect of final accounts of a limited company. However, the preparation and presentation of final accounts of company are governed strictly by the provisions of Companies Act 1956 amended up to date.

There is a range of provisions contained in Companies Act 1956 which regulate the accounting for, and the record of, business transactions of a company but only certain salient points profoundly affect the preparation of final accounts. They are,

1. The balance sheet and profit and loss account of a company are to be drawn up in strict conformity with the provisions of section 211 and schedule VI of Companies Act 1956.

2. Annual accounts of a company which are statutorily required to be filed with the registrar of companies, comprises of balance sheet, profit & loss account, and every other documents annexed or attached to balance sheet and profit & loss account. The auditor’s report on annual accounts is attached to balance sheet of the company. This annual accounts of a company must give a ‘true and fair view, of the state of affairs of a company at the end of financial year including the profit or loss position under Section 211 of the Company Act. Truly speaking, the provisions of Companies Act regulates every aspect of not only the preparation of final accounts but also the accounting for business transactions.

Balance Sheet of Companies (Main Headings only)
(As per Section 211, Schedule VI, Part I)

LIABILITIES	Previous Yr.	Current Yr.	ASSETS	Previous Yr.	Current Yr.
Share Capital			Fixed Assets		
Authorized:			(1) Goodwill		
————Shares of			(2) Land		
Rs.—— each			(3) Buildings		
Issued:			(4) Leaseholds		
————Shares of Rs.			(5) Railway sidings		
—— each			(6) Plant and machinery		
Subscribed:			(7) Furniture and		
————Shares of			fittings		
Rs.—— each			(8) Development of		
			property		
Paid-up capital:			(9) Patent, trade		
Rs. —— per share called up			marks and designs		
Less: Unpaid calls			(10) Livestock and		
Add: Forfeited shares			(11) Vehicles, etc.		
(Amount originally paid-up)					

Reserves and Surplus				**Investments**		
(1)	Capital reserves			(1) Investment in		
(2)	Capital redemption			government or		
	reserve			trust or trust		
(3)	Share premium account			securities		
(4)	Other reserves,			(2) Investment in		
	specifying the nature of			shares, debentures		
	each reserve			or bonds		
(5)	Profit & Loss account			(3) Immovable properties		
	or surplus i.e. balancing			(4) Capital of		
	figure carried over as			partnership firms		
	per Profit & Loss					
	(appropriation) account			Current Assets,		
(6)	Proposed additions to			Loans and Advances		
	reserves			A. Current Assets:		
(7)	Sinking funds			(1) Interest accrued		
				on investment		

LIABILITIES	Previous Yr.	Current Yr.	ASSETS	Previous Yr.	Current Yr.
Secured loans					
(1) Debentures			(2) Stores and spare		
(2) Loans and advances from			parts		
banks			(3) Loose tools		
(3) Loans and advances from			(4) Stock-in-trade		
subsidiaries			(5) Work-in-progress		
(4) Other loans and advances			(6) Sundry debtors		
			(7) Cash balance in		
Unsecured loans			hand		
(1) Fixed deposits			(8) Bank balance		
(2) Loans and advances					
from subsidiaries			B. Loans and		
(3) Short-term loans and			Advances:		
advances			(9) Loans and advances		
(4) Other loans and advances			to subsidiaries		
			(10) Loans and		
Current Liabilities and			advances to		
Provisions			partnership firm in		
A. Current Liabilities			which company or		
(1) Acceptances			any of its		
(2) Sundry creditors			subsidiaries is a		
(3) Subsidiary companies			partner		
(4) Advance payment and			(11) Bill of exchange		
unexpired discounts			(12) Advances		
(5) Unclaimed dividends			recoverable in		
(6) Other liabilities			cash or kind or		
(7) Interest accrued but not			value to be received,		
due on loans			e.g. rates, taxes,		
			insurances, etc.		
B. Provisions			(13) Balances with		
(8) Provision for taxation			custom, port trust,		
(9) Proposed dividends			etc.		
(10) Provision for					
contingencies			Miscellaneous		
(11) Provision for provident			Expenditure		
fund schemes			(to the extent not		
(12) Provision for insurance,			written off or		
pension and similar staff			adjusted)		
benefit schemes			(1) Preliminary		
(13) Other provisions			expenses		
			(2) Expenses		
			including		

LIABILITIES	***Previous Yr.***	***Current Yr.***	*ASSETS*	***Previous Yr.***	***Current Yr.***
			commission or brokerage or underwriting of subscription of shares or debentures (3) Interest paid out of capital during construction (4) Development expenditure not adjusted (5) Other sums, specifying nature		
Total			**Total**		
Footnote may be added as the following: (1)Claims against the company not acknowledged as debts (2)Uncalled liability on shares partly paid-up (3)Arrears of fixed cumulative dividends (4)Estimated amount of contracts remaining to be executed on capital account and not provided for (5)Other sums for which the company is contingently liable					

Profit & Loss Account of Companies

No standard form has been prescribed by law for the profit & loss account of a company as has been done for the balance sheet. This is due to the reason that there are many different types of companies and industries, with their own peculiar characteristics, for which one set form cannot be suitable. However, the part II of schedule VI of the Companies Act has specified presentation and disclosure requirements in respect of items of income and expenditure.

Vertical presentation of Final Accounts for Joint Stock Companies (condensed form)

	Particulars		Amount (Rs.)	
	Sales/Revenues from Operations		——	
Less	Cost of Goods Sold (COGS)	Trading A/c	——	
	Gross Profit (GP)/(Gross Loss)		——@	
Less	Operating Expenses (OE)		——	
	Operating Profit (OP)		——@	
Add	Non operating income/Less non operating losses		——	
	Earning Before Interest and Tax (EBIT)		——@	
Less	Interest		——	P & L A/c
	Earning Before Tax (EBT)		——@	
Less	Tax		——	
	Profit After Tax (PAT)/Net Profit (NP)		——@	
Less	Provision for dividend		——	
Less	Transfer to general reserve		——	
Less	Transfer to other reserves	P & L (appropr.) A/c	——	
	Profit & Loss A/c		——@	
	Goes to			

Balance Sheet liability side (under the head Reserves and Surplus as Profit & Loss A/c or Retained Earnings (RE)

Complete set of financial statements(IAS 1)

A complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in this Standard.

Statement of cash flows

Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

IAS 7 - Overview

- Objective and scope
- Cash flows
- Reporting operating cash flows
- Reporting investing cash flows
- Reporting financing cash flows
- Specific items
- Disclosures

IAS 7 – Objective and Scope

- IAS 7 objective: to provide a statement to help investors assess the prospects for future cash flows, and to confirm or change their past expectations
- Statement provides historical information on the entity's operating, investing and financing cash flows and how its cash balances have changed in the period as a result

Benefits of cash flow information IAS 7

A statement of cash flow, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Accounting for Non-profit Organisations

Non-Profit Organisations

- Non-profit organisations are formed to provide social and welfare facilities or services to its members who are the owners.
- The aim of these types of organisations is to fulfil the needs of the members rather than making profits.
- Common examples include Sports Clubs, Musical Groups and Voluntary Service Organisations

Sources of Income

- Subscriptions received from members (collected at start and throughout the year and becomes part of the Accumulated Fund).
- Donations received (please note that this may be capitalized at times and must be shown in the balance sheet when received for a special purpose).
- Receipts (income) from fund raising events.
- Receipts (income) from operating specific activities such as sale of bar stocks or refreshments.

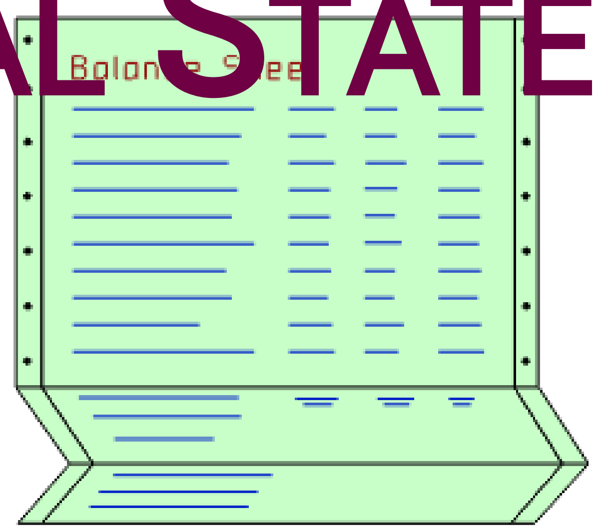
Financial Statements and Accounts

- Income and expenditure account: Non-trading organisation use the above named account instead of profit and loss account. Therefore, the term used to determine the yearly amounts will replace net profit/net loss with the term surplus/deficit.
- Balance sheet: This is no change in the preparation of the financial statement. Except for the replacement of the term Capital with the name Accumulated Fund.

Income & Expenditure Account

Income & Expenditure Account for the year ended 31 March ….					
Dr.					Cr.
Particulars	Details	Amount	Incomes	Details	Amount
To Honoraria		xxx	By Subscriptions (Net Adjusted)		yyy
To Electricity		xxx	By Donations (General)		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To		xxx	By		yyy
To Surplus (Excess of Income over Expentures)		XXX	By Deficiency (Excess of Exp over Income)		YYY
TOTAL			TOTAL		

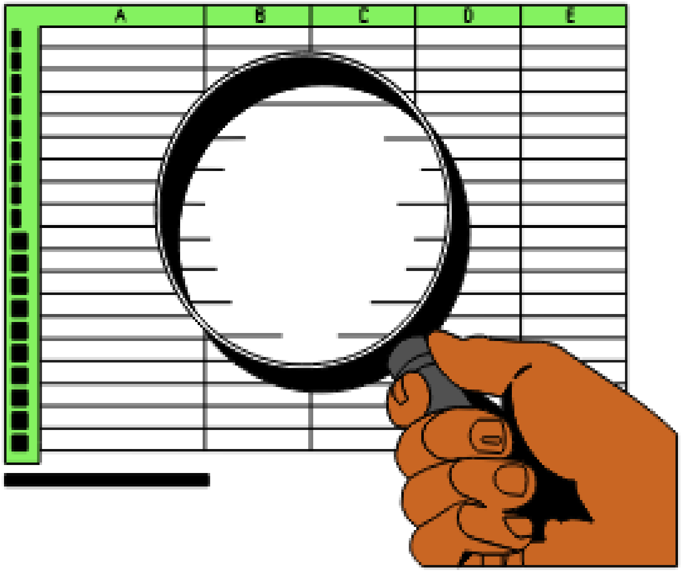
Analysis And Interpretation Of Financial Statements



Financial Statement Analysis

Who analyzes financial statements?

- Internal users (i.e., management)
- External users
  - Examples?
  - Investors, creditors, regulatory agencies & …
  - stock market analysts and
  - auditors



Financial Statement Analysis

- What do internal users use it for?

  Planning, evaluating and controlling company operations

- What do external users use it for?

  Assessing past performance and current financial position and making predictions about the future profitability and solvency of the company as well as evaluating the effectiveness of management

Methods of Financial Statement Analysis

- Horizontal Analysis
- Vertical Analysis
- Common-Size Statements
- Trend Percentages
- Ratio Analysis

Horizontal Analysis

Using comparative financial statements to calculate amount or percentage changes in a financial statement item from one period to the next

Vertical Analysis

For a single financial statement, each item is expressed as a percentage of a significant total, e.g., all income statement items are expressed as a percentage of sales

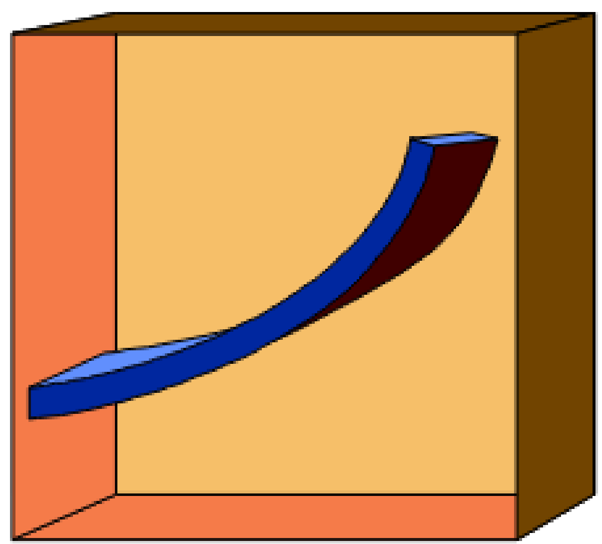
Common-Size Statements

Financial statements that show only percentages and no absolute amounts

%

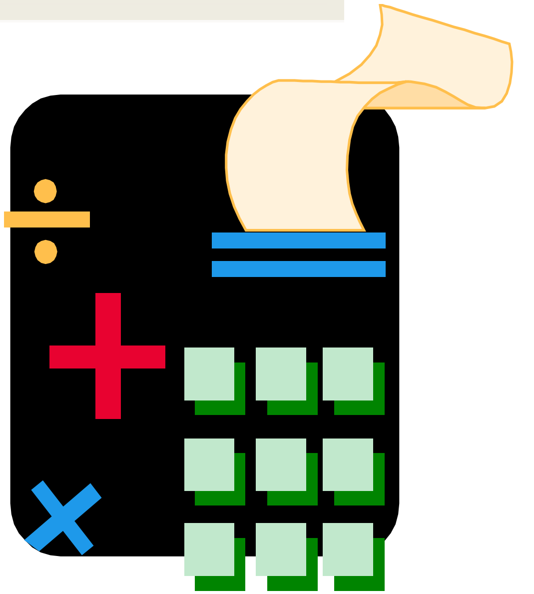
Trend Percentages

Show changes over time in given financial statement items (can help evaluate financial information of several years)



Ratio Analysis

Expression of logical relationships between items in a financial statement of a single period (e.g., percentage relationship between revenue and net income)



Breakeven Analysis Defined

- Breakeven analysis examines the short run relationship between changes in volume and changes in total sales revenue, expenses and net profit
- Also known as C-V-P analysis (Cost Volume Profit Analysis)

Uses of Breakeven Analysis

- C-V-P analysis is an important tool in terms of **short-term** planning and decision making
- It looks at the relationship between costs, revenue, output levels and profit
- Short run decisions where C-V-P is used include choice of sales mix, pricing policy etc.

Decision making and Breakeven Analysis: Examples

- How many units must be sold to breakeven?
- How many units must be sold to achieve a target profit?
- Should a special order be accepted?
- How will profits be affected if we introduce a new product or service?

Key Terminology: Breakeven Analysis

- ***Break even point*** -the point at which a company makes neither a profit or a loss.

- ***Contribution per unit*** -the sales price minus the variable cost per unit. It measures the contribution made by each item of output to the fixed costs and profit of the organisation.

Key Terminology ctd.

- ***Margin of safety*** -a measure in which the budgeted volume of sales is compared with the volume of sales required to break even
- ***Marginal Cost*** – cost of producing one extra unit of output

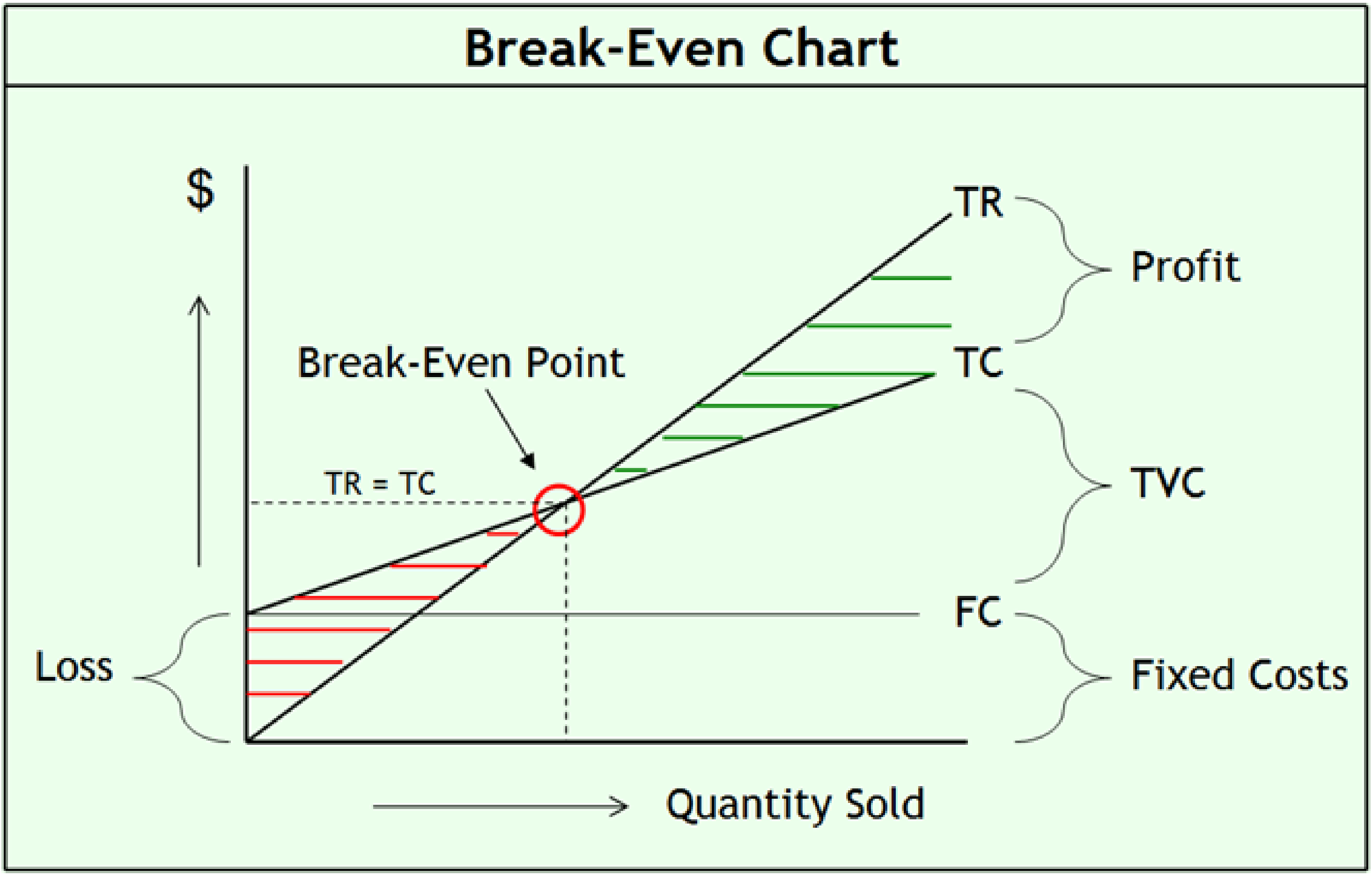
Breakeven Formula

<u>Fixed Costs</u>

*Contribution per unit

*Contribution per unit = Selling Price per unit – Variable Cost per unit

Breakeven Chart



Margin of Safety

- The difference between budgeted or actual sales and the breakeven point
- The margin of safety may be expressed in units or revenue terms
- Shows the amount by which sales can drop before a loss will be incurred

Target Profits

- What if a firm doesn't just want to breakeven – it requires a target profit
- Contribution per unit will need to cover profit as well as fixed costs
- Required profit is treated as an addition to Fixed Costs

Limitations of B/E analysis

- Costs are either fixed or variable
- Fixed and variable costs are clearly discernable over the whole range of output
- Production = Sales
- One product/constant sales mix
- Selling price remains constant
- Efficiency remains unchanged
- Volume is the only factor affecting costs

Sample Questions

- **1.** In double entry system, accounts are primarily classified in to __________.
- a) Receiver account & Giver account
- b) Income account & Expenses account
- c) Real account & Nominal account
- d) Personal Account & Impersonal account
- **2.** Discount received is recorded on which side of a cash book?
- a) Receipts
- b) Payments
- c) Income
- d) Expense

3. For a real estate construction company, which of the following are not part of Profit and Loss Statement?

a) Revenue from apartment sales

b) Interest paid to lenders

c) Cash deposited in bank

d) Depreciation expense

4. Proposed dividend is shown in the Balance Sheet of a company under the head _____.

a) provisions

b) reserves and surplus

c) current liabilities

d) other liabilities

5. Difference between variable cost per unit and selling price can be classified as______ margin per unit. a) contribution

b) gross

c) net

d) profit

Thank You 

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