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BASICS OF ACCOUNTING

Overview

- Accounting
- Accounting Standards
- Accounting Cycle
- Methods of Accounting and Book keeping
- Conventions
- Concepts
- Financial Statements



What is Accounting??

It is the systematic

- recording,
- reporting, and
- analysis of financial transactions of a business.

Accounting allows a company to analyze the financial performance of the business, and look at statistics such as net profit.



***“Accounting
Is
About
ACCOUNTABILTY”***



Who is an Accountant?

- The person in charge of accounting is known as an accountant.
- This individual is typically required to follow a set of rules and regulations, such as the Generally Accepted Accounting Principles (GAAP).



Accounting Standards

- Accounting Standards aim at standardizing different accounting policies and practices.
- **GAAP** is a term used to refer to the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as **Accounting Standards**.



Accounting Standards

- Country based GAAP
- International GAAP



- **Golden Rules in Accounting**

- To identify the effect of a transaction on a account there are rules:

- **For Personal Account:**

- **Debit: the receiver**
- **Credit: the giver**

- **For Real Account:**

- **Debit: what comes in**
- **Credit: what goes out**

- **For Nominal Account:**

- **Debit: all expenses and losses**
- **Credit: all incomes and gains**



Process of Accounting/Accounting Cycle

- Recognize or identify the transaction or event.
- Record the transaction by making entries in the appropriate journal, such as the sales journal, purchase journal, cash receipt or disbursement journal, or the general journal.
- Post general journal entries to the ledger accounts.
- Prepare the trial balance to make sure that debits equal credits.
- Prepare the financial statements.



Types of Accounts

There are 3 types of accounts

- Personal accounts
- Real accounts
- Nominal accounts



Methods of Accounting



There are 2 accounting methods

- **Cash Method of Accounting**

- Revenue recognition: Revenue is recognized when cash is received.
- Expense recognition: Expense is recognized when cash is paid

- **Accrual Method of Accounting**

- Revenue Recognized: Revenue is recognized when both of the following conditions are met:
 - a. Revenue is earned.
 - b. Revenue is realized or realizable.
- Expense Recognized: Expense is recognized in the period in which related revenue is recognized



What is Book Keeping??

Bookkeeping is the practice of recording transactions.



Methods of Book Keeping

- **Single Entry Book Keeping**
 - One sided accounting entry
- **Double Entry Book Keeping**
 - An accounting technique which records each transaction as both a credit and a debit.



Accounting Concepts

1. Business Entity Concept
2. Money Measurement Concept
3. Going Concern Concept
4. Accounting Period Concept
5. Accounting Cost Concept
6. Duality Aspect Concept
7. Realisation Concept
8. Accrual Concept
9. Matching Concept



- **Accounting Conventions**

- Convention of Consistency.
- Convention of Full Disclosure.
- Convention of Materiality.
- Convention of Conservatism



Branches of Accounting

- Financial Accounting
- Management Accounting
- Tax Accounting
- Fund Accounting
- Forensic Accounting



Important Accounting Terminologies

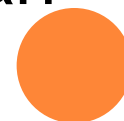
- Debtors
- Creditors
- Assets
- Liabilities
- Income
- Expenses
- Account



Financial (Accounting) Statements

There are two main purposes of financial statements:

- To report on the financial position of an entity (e.g. a business, an organisation);
- To show how the entity has performed (financially) over a particular period of time (an "accounting period").



Financial Statements

- Comprehensive Income and Expenses Statement
- The Balance Sheet
- Statement of Cash Flows



Examples of Comprehensive Income and Expenses Statement



<i>(Figures USD)</i>	2008	2009
Net Sales	1,500,000	2,000,000
Cost of Sales	<u>(350,000)</u>	<u>(375,000)</u>
Gross Income	1,150,000	1,625,000
Operating Expenses (SG&A)	<u>(235,000)</u>	<u>(260,000)</u>
Operating Income	915,000	1,365,000
Other Income (Expense)	40,000	60,000
Extraordinary Gain (Loss)	-	(15,000)
Interest Expense	<u>(50,000)</u>	<u>(50,000)</u>
Net Profit Before Taxes (Pretax Income)	905,000	1,360,000
Taxes	<u>(300,000)</u>	<u>(475,000)</u>
Net Income	605,000	885,00



Example of Balance Sheet



ASSETS

Current Assets

Cash	\$	20,000
Accounts receivable	\$	15,000
Inventory	\$	<u>150,000</u>
Total Current Assets	\$	<u>185,000</u>

Non-Current Assets

Plant and equipment	\$	50,000
Business premises	\$	650,000
Vehicles	\$	<u>70,000</u>
Total Non-Current Assets	\$	<u>770,000</u>

TOTAL ASSETS

\$ 955,000

Current Liabilities

Accounts payable	\$	25,000
Bank overdraft	\$	10,000
Credit card debt	\$	5,000
Tax liability	\$	<u>30,000</u>
Total Current Liabilities	\$	<u>70,000</u>

Non-Current Liabilities

Long term business loan 1	\$	450,000
Long term business loan 2	\$	<u>50,000</u>
Total Non-Current Liabilities	\$	<u>500,000</u>

TOTAL LIABILITIES

\$ 570,000

NET ASSETS

\$ 385,000

OWNERS EQUITY

\$ 385,000



Example of Cash Flow Statement



Cash Flow Statement

Cash Flows from Operating Activities:

Operating Income (EBIT)	\$489,000	
Depreciation Expense	\$112,400	
Loss on Sale of Equipment	\$7,300	
Gain on Sale of Land	-\$51,000	
Increase in Accounts Receivable	-\$84,664	
Decrease in Prepaid Expenses	\$8,000	
Decrease in Accounts Payable	-\$97,370	
Decrease in Accrued Expenses	-\$113,860	
Net Cash Flow from Operating Activities		\$269,806

Cash Flows from Investing Activities:

Sale of Equipment	\$89,000	
Sale of Land	\$247,000	
Purchase of Equipment	-\$100,000	
Net Cash Flow from Investing Activities		\$136,000

Cash Flows from Financing Activities:

Payment of Dividends	-\$90,000	
Payment of Bond Payable	-\$200,000	
Net Cash Flow from Financing Activities		-\$290,000
Net Change in Cash		\$115,806
Beginning Cash Balance		\$319,730
Ending Cash Balance		\$435,536

