MGT 101

Financial Accounting

Module - I

Lesson # 01.

- Accounting:

  Is accounting
  - process
  - Activity
  - System
  - Subject

- Accounting is a language:
  Language is a medium that is used to
  - Communicate
  - Understand

  Some
  - ideas
  - Policies
  - Plans
  - information.

- Defination of Accounting
  Accounting is a language that used to:
  (i) Communicate and
  (ii) understand
  the

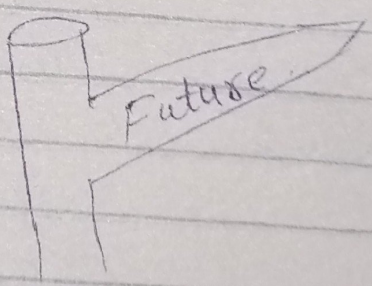
- Financial ideas
- financial policies
- financial plans
- financial information

Branches of Accounting:

Financial Accounting
- financial information.

/The Past.

Management Accounting
- financial ideas
- financial policies
- financial plans.



Financial Information:

Any information that is

1- measurable in terms of money
and
2- Causes a change in financial position of an entity.

Important Tips To Remeber - ITTR:

-1 Accounting is a language
-2 Financial information is measurable in terms of money and belongs to the past.

Module - II

Sources of Financial Information.

There are three sources of financial information.

(i) Transactions
(ii) Events
(iii) Conditions

are also known as Accounting phenomena.

Transaction:

Transaction occurs when two persons deals with each other.

- Social motives dealing Social Transaction. birthday gift etc.

- Economics ~~de~~ benefits dealing Accounting Transaction.

monetary dealing b/w the entity and other person.

Accounting Transaction.

✓ Dealing b/w entity and other pe
- entity with owners
- entity with any persons other than the owner

✓ There are two criteria to identify an accounting Transaction
- Measurability in terms of money
- Dealing of the entity with other person.

Event:

Event means anything that happens. There are two types of events.
- Monetary
- Non- Monetary.

Monetary Event e.g include
- loss by fire
- Loss by accident
- Foreign exchange (gain / loss)

Non- Monetary Event.

Examples include

- Winning or losing a game that does not carry financial impacts.

Condition:

Condition covers certain adjustment in already recorded transaction and event.

Examples include.

- Provision to be created against expected doubtful recovery from customer.
- Fixed Assets to be depreciated according to their expected useful life.

Important Tips To Remember - ITTR.

- ✓ Three sources of financial information.
- ✓ Transaction results from a deal.
- ✓ First party is the entity itself dealing with other.
- ✓ Each accounting information is measurable in money.

Financial Position.

Financial position means; an entity status of Resources & Sources.

- Resources are the assets.
- Sources are the means of finances that include liability and owner's quality.

Assets = Liability + Equity

Important Tips:

1- Measurement in reporting currency.
2- Financial position means financial status.
3- Resources are equal to Sources.

Module IV

Functions of financial accounting

Financial accounting is required to

1- Classify.

2- Record.

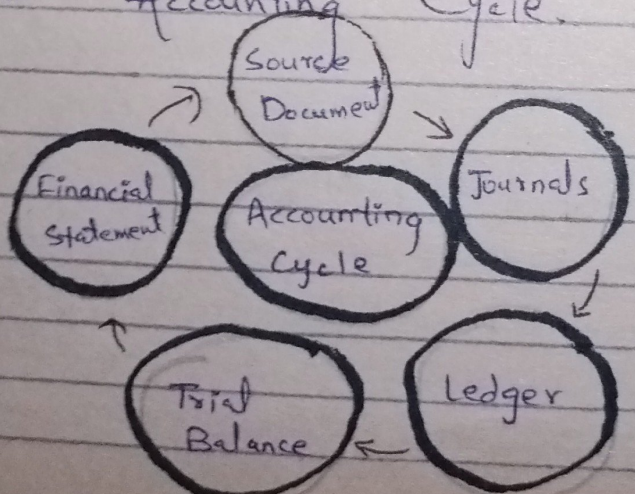
-3 Summarize

-4 Report.

-5 Analyze

These are the five functions of financial Accounting that are covered in.

- Accounting Cycle.



The Source document is the base

in the source document we have certain working papers with us along with the supporting papers which are in fact supporting or evidencing a transaction or an event or a condition in a way the financial information and based on the that we prepare a a voucher and vocher is then entered or recorded in a journal and that journal we prepare summaries those Summaries give us a balance that is put to the trial balance and those balance are then put into the financial statements which are finally analyzed.

Topic # 05

Classifying financial information.

Financial information are classified into five main heads, these are also known as element of financial statement.

i- Assets
ii- Liabilities
iii- Owner Equity
iv- Incomes
v- Expenses.

Assets:

Assets are the resources in control of entity

Liabilities:

Liabilities are the present obligations.

Owner's Equity:

is the source of finance that represents owner's stake.

Incomes:

Incomes are earning

Expenses:

Expenses are the costs that Expire.

ITR:

∴ Present obligation means — obligation on the end of reporting period.

. Accounting heads are sub-heads

Entity and Seprate Entity Concept

Entity:

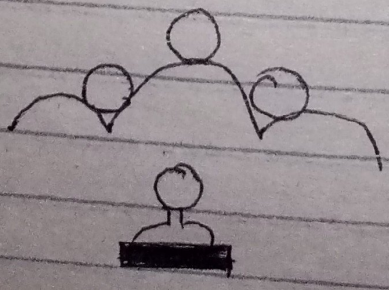
purpose of an entity

- Profit motive [Commercial Organization]
  - Business
    - Sole
    - Patner, Limited Companies.
- Non-profit motive
  - NGOs
  - Trust
  - Societies
  - welfare Society.

- Financial information is involved in both profit and non-profit motive entities.
- Therefore financial accounting is a need for a business as well as a welfare society.

Seprate Entity Concepts:

A business entity and its owner are two different persons.



For accounting purposes, business has separate entity / identity, apart from its owner

Important Tips To Remember (ITTR)

1. Accounting is a requirement of each entity.
2. Business has separate entity apart from its owner.
3. Accounting entity concept is different from the legal entity concept.

Topic # 07

Users of financial Information

(a) Investors / shareholder / owner.
How well the management is performing.

(b) Trade Contacts:
Suppliers and Customers.

(c) Lenders:
providers of finance are lenders.

(d) Taxation authorities:
assess the tax payable by the entity, including sales taxes etc.

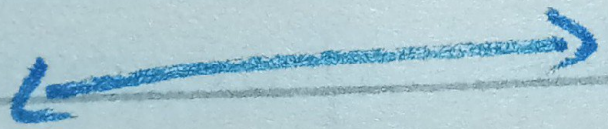
(d) Mangers and Employees:
To enable to manage the business.

(e) Financial Consultants and advisers
For their clients

(g) Government.
intrested in the collection of resources.

(b) Public:

Entity may make a substantial contribution to a local economy.



Topic #08

Underlying Assumption

Going Concern:

Assumption that a business entity will remain in existence for the foreseeable future

Examples include:

- Significant trading losses being incurred for several years.
- Deteriorating liquidity position.
- High financial risk arising ~~form~~ from increased debts level.
- Aggressive growth strategy not backed by sufficient finance.
- Serious litigations.
- Inability of a company to develop a new range of commercially successful products.
- Bankruptcy of major customer.

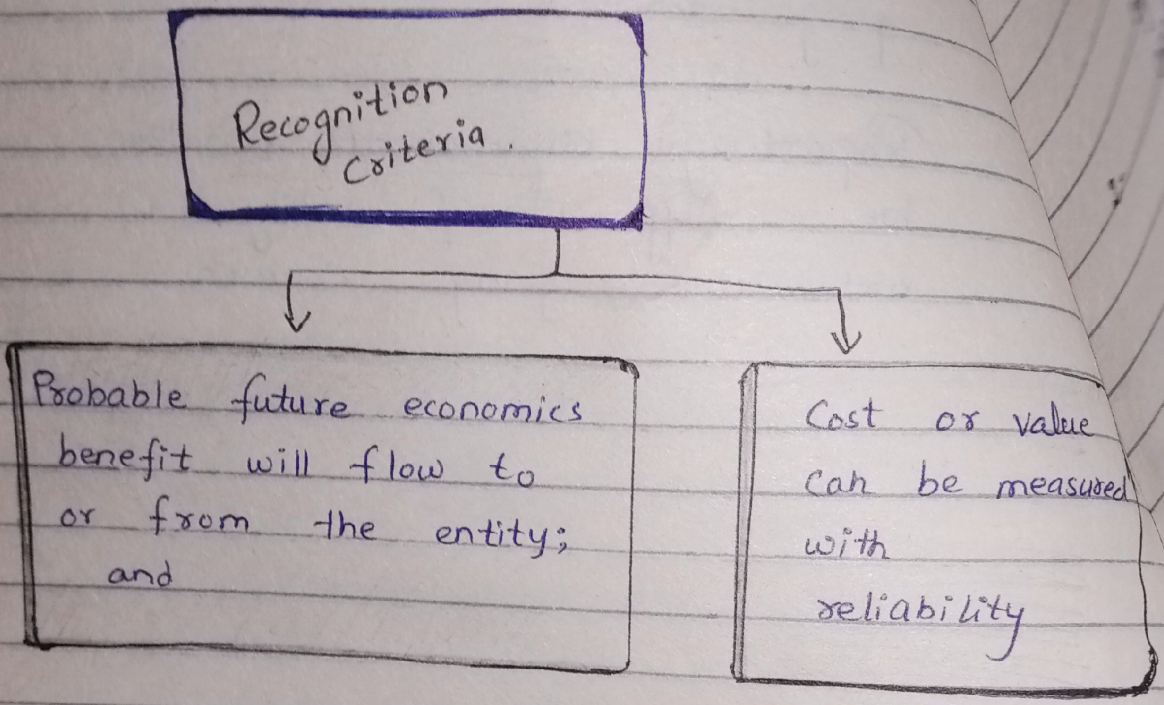
Important Tips To Remember - ITTR.

1- Accounting principles cannot be applied if entity is not a going concern.

2- Reporting requirements would be different if entity is not a going concern.

Topic # 09

Recognition of the elements of financial statement.



Recognition Criteria.

Asset :

1- Probable inflow of future economics benefits, and
2- Cost or value can be measured reliability.

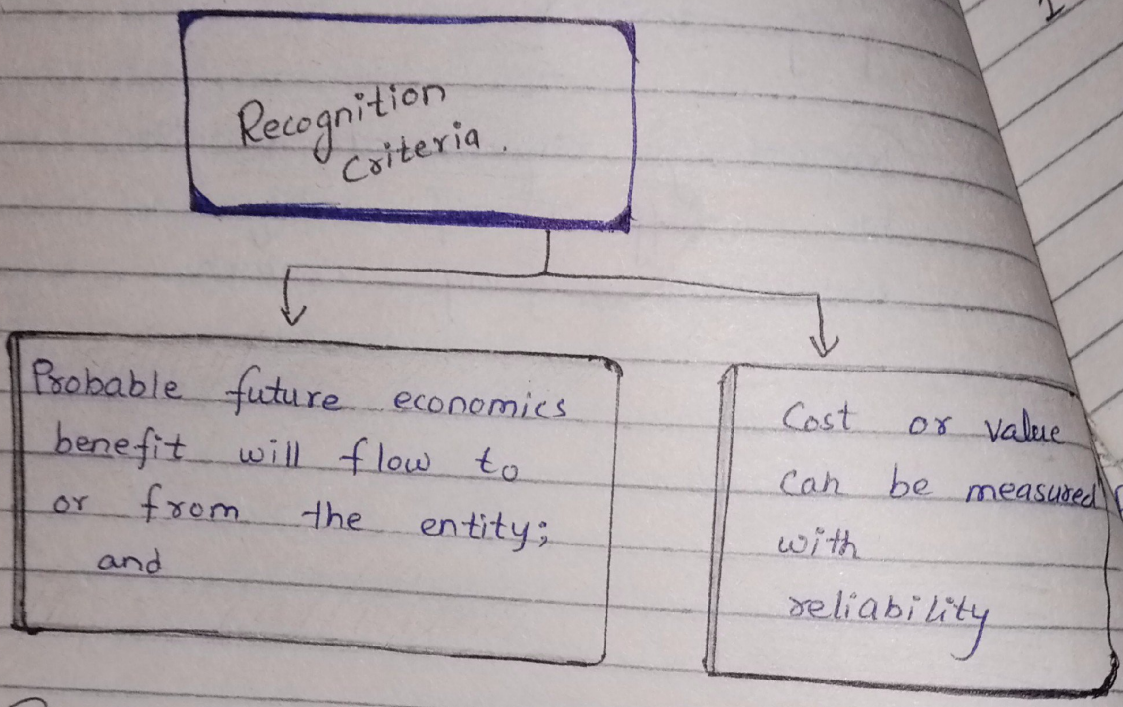
means most likly to happens. ↑

Liability:

1- Probable outflow of resources embodying economics benefits will result from the settlement of a present obligation and
2- amount at which the Settlement will take place can be measured reliably.

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Income:

1-

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1- an increase in future economics benefits related to an increase is an asset or a decrease of a liability has arisen, and
2- amount can be measured reliably.

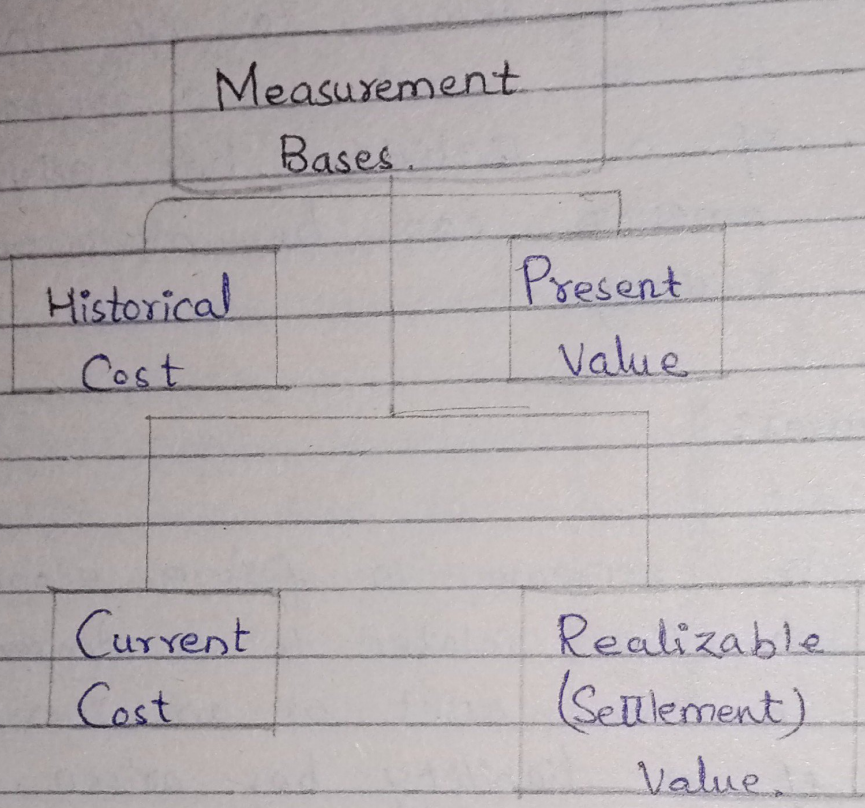
Expenses:

1- a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen, and
2- amount can be measured reliably.

Topic # 10

V. Imp

Measurement of the elements of financial statement.



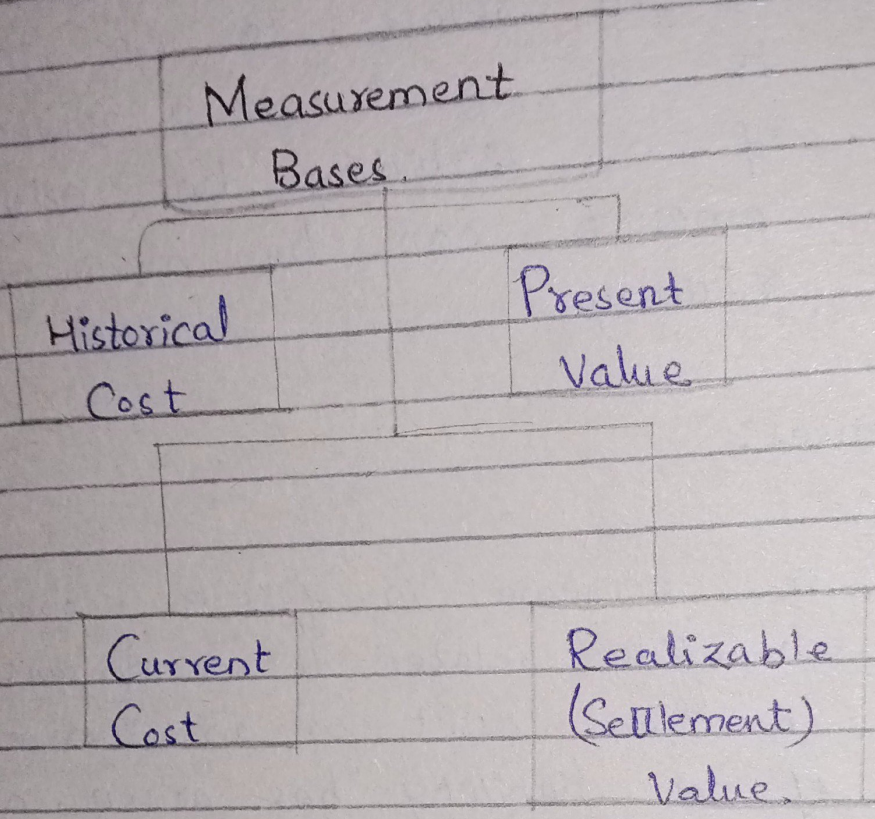
✓ Historical Cost is the most commonly used measurement basis, it is usually combined with other measurement bases.

1- Historical Cost
2- Current Cost
3- Net realisable (Settlement) value.
4- Present value (discounted Cash flows)

Topic # 10

Imp

Measurement of the elements of financial statement.



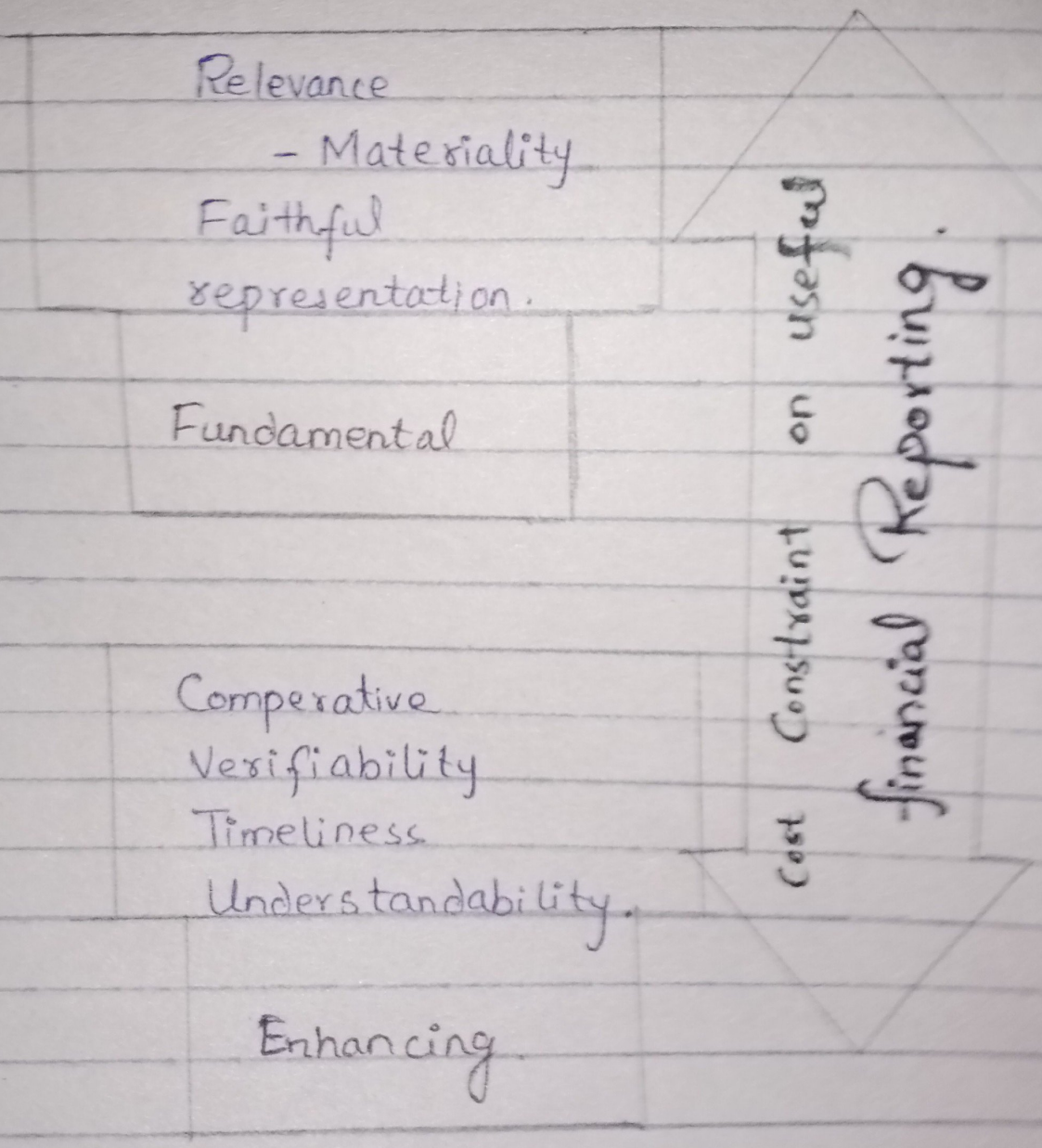
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Topic # 11

Qualitative characteristics of useful financial information.

Qualitative Characteristics.



Relevance:

- Confirmatory value
- Predictive value; or
- Both.

Materiality is an entity specific aspect of relevance based on:

- Nature - Magnitude; or
- Both

Faithful Representation

- Complete
- Neutral
- Free form Error

Enhancing Qualitative Characteristics.

Comparability	• Consistency
Verifiability	• Direct • In direct
Timeliness	• Timely Report • Reliable information.
Understandability	• Reasonable knowledge • Disclosures.

Important Tips To Remember - ITTR.

-1 Qualitative financial information produce qualitative financial statements.

-2 Information is material if its non-disclosure changes the decisions of the user of financial statement.