

“BASICS OF FINANCIAL ACCOUNTING ”

By:

Mohammad Masood Ahmed

MBA, M. Com., MA (Eco), M.Sc (Psych), M.H.Sc.(Public Health), M.Phil(Mngt)

Director, MESCO Institute of Management & Computer Sciences

Meaning of Financial Accounting

- “It is an art of Recording, Classifying and Summarizing all the Business Transactions in terms of Money”

Differences Between Financial, Cost & Management Accounting

Basis	Financial Accounting	Cost Accounting	Management Accounting
Objects	Record transactions & determine financial position & profit or loss.	Ascertainment, allocation, accumulation and accounting for cost	To assist the management in decision-making & policy formulation.
Nature	Concerned with historical data.	Concerned with both past and present recorded (historical in nature).	Deals with projection of data for the future (futuristic in nature)
Principle Followed	Governed by GAAP	Certain principles followed for recording costs.	No set principles are followed in it.
Data used	Qualitative aspects are not recorded	Only quantitative aspect is recorded.	Uses both quantitative and qualitative concepts.

Business Transactions

(Examples: Business Name: ABC Company and Owner: Mr. X)

Capital budget in the business	Rs. 10 Lakhs
Land & Building purchased	Rs. 4 Lakhs
Plant & Machinery purchased	Rs. 3 Lakhs
Furniture & Fixtures purchased	Rs. 1 Lakh
Tools & Equipments purchased	Rs. 1 Lakh
Raw Material purchased	Rs. 50, 000
Salaries & Wages	Rs. 50, 000
Freight Charges	Rs. 5,000
Insurance	Rs. 10,000
Advertisement	Rs. 20,000
Goods Sold	Rs. 1 Lakh
Drawing (Cash withdrawn by the owner for his personal use)	Rs. 25,000

ACCOUNTING PRINCIPLES



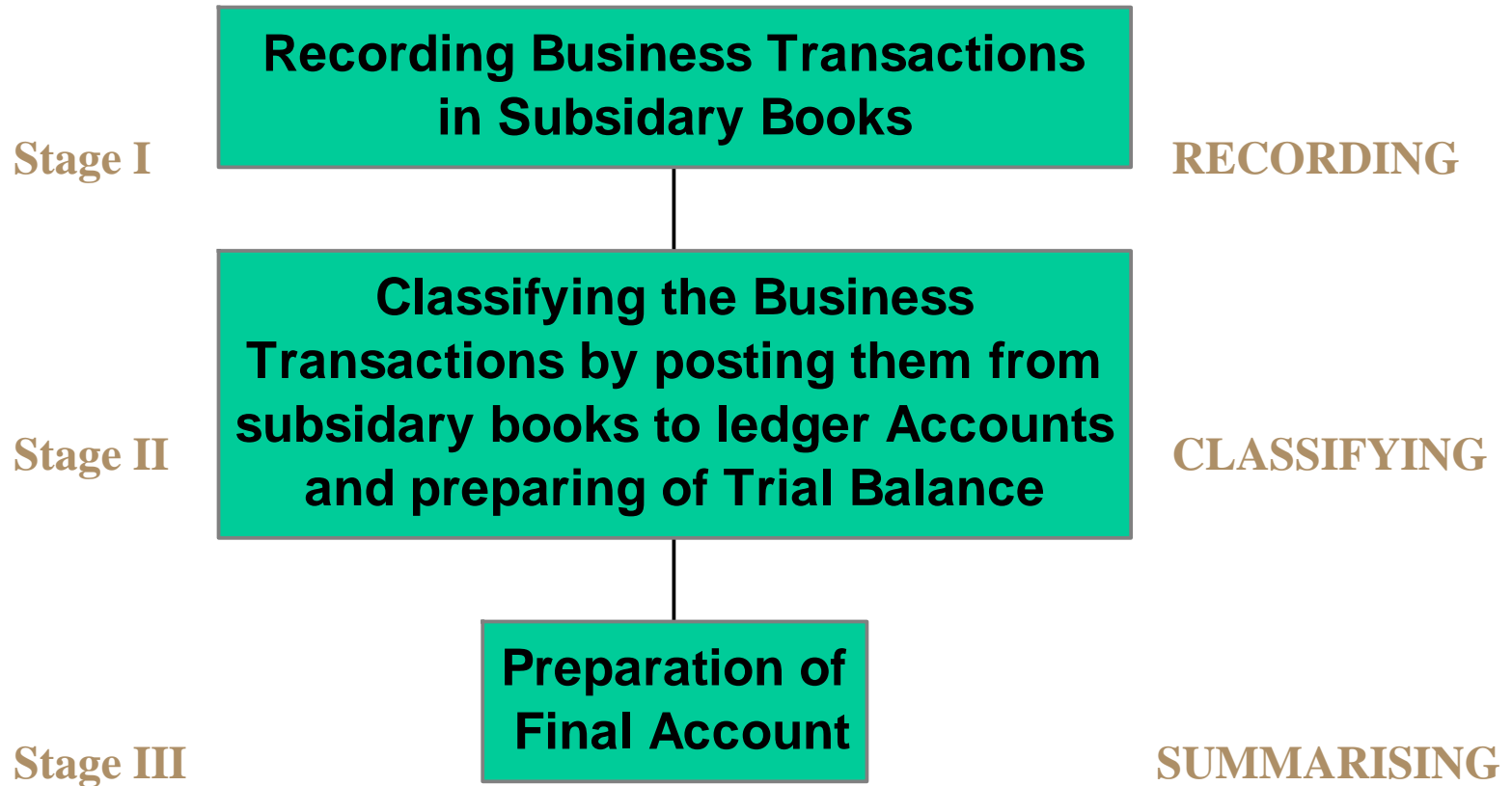
- **Accounting Concepts
(Necessary assumptions)**

1. Entity Concept
2. Dual Aspect Concept
3. Going Concern Concept
4. Accounting Period Concept
5. Money Measurement Concept
6. Cost Concept
7. Revenue Recognition Concept
8. The Matching Concept
9. Accurate Concept
10. Objectivity Concept

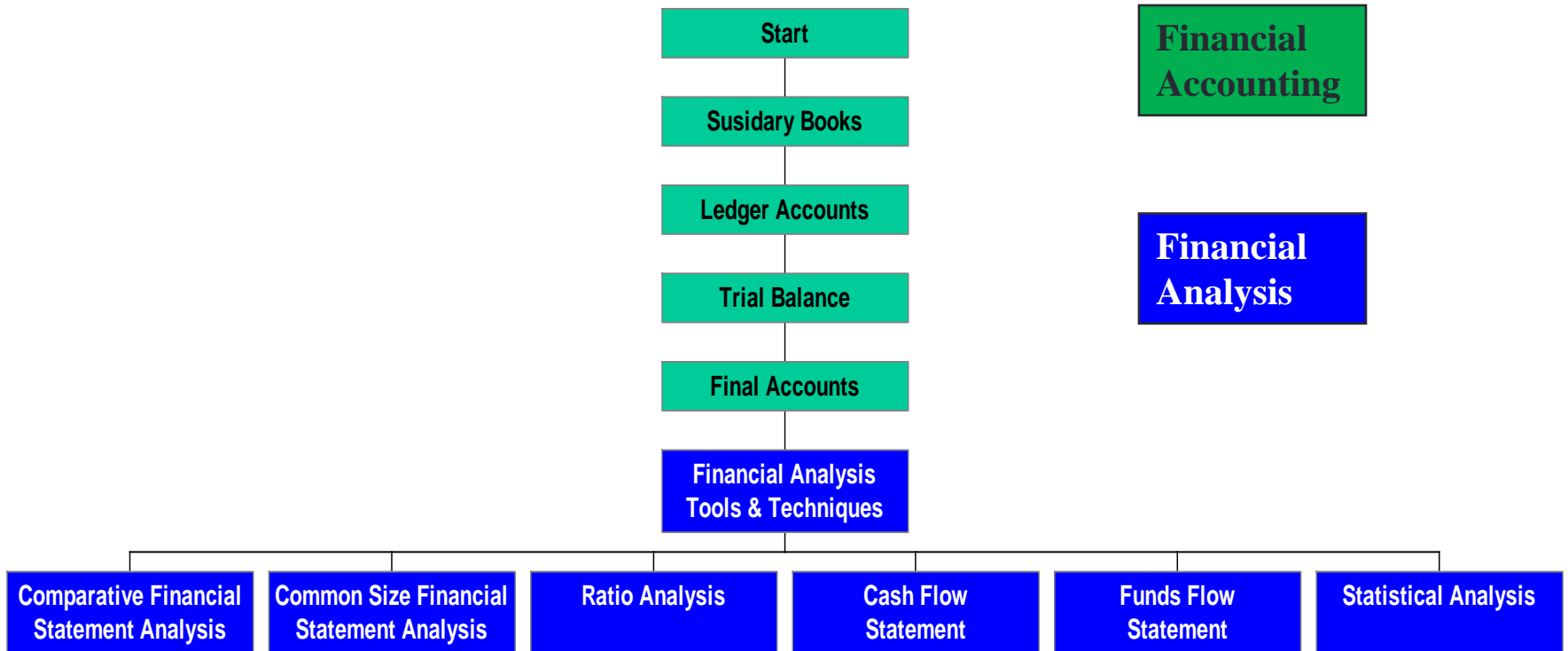
- **Accounting Conventions
(Customer or Traditions)**

1. Convention of Disclosure
2. Convention of Materiality
3. Convention of Consistency
4. Convention of Conservatism

Accounting Cycle



ACCOUNTING FLOW CHART





PROJECTED BALANCE SHEET

INDIAN RUPEES (in million rupees)	2014	2015	2016	2017	2018
TOTAL ASSETS	100000731.7	114784151.2	129715337.6	144795836.5	160027141.2
Total current assets	67179501.7	81962921.21	96894107.57	111974606.5	127205911.2
Total fixed assets, net of depreciation	32821230	32821230	32821230	32821230	32821230
TOTAL LIABILITIES	100000731.7	114784151.2	129715337.6	144795836.5	160027141.2
Total current liabilities	0	0.324923196	0.326621917	0.329889931	0.33318883
Total long-term debt	731.7	725.6025	652.4325	579.2625	506.0925
Total equity capital	100000000	100000000	100000000	100000000	100000000
Reserves, retained profit brought forward	0	0	14783425.28	29714684.81	44795256.94
Retained profit	0	14783425.28	14931259.53	15080572.13	15231377.85
Net worth	100000000	114783425.3	129714684.8	144795256.9	160026634.8
Equity to total liabilities (%)	9.99993E-05	8.712E-05	7.70919E-05	6.90628E-05	6.24894E-05
Net worth to total liabilities (%)	9.99993E-05	9.99994E-05	9.99995E-05	9.99996E-05	9.99997E-05
Long-term debt to net worth	7E-12	6E-12	5E-12	4E-12	3E-12
Current assets to current liabilities	0	252.2532162	296.6552535	339.4302041	381.7832405

STATEMENT OF PROFIT AND LOSS

for the year ended March 31, 2020

Yr 2020

Yr 2019

(₹ crore)

	Note	Page	Year ended March 31, 2020	Year ended March 31, 2019
I Revenue from operations	27	279	60,435.97	70,610.92
II Other income	28	280	404.12	2,405.08
III Total income			60,840.09	73,016.00
IV Expenses:				
(a) Cost of materials consumed			17,407.03	19,840.29
(b) Purchases of stock-in-trade			1,563.10	1,807.85
(c) Changes in inventories of finished and semi-finished goods, stock-in-trade and work-in-progress	29	281	(564.40)	(554.33)
(d) Employee benefits expense	30	281	5,036.62	5,131.06
(e) Finance costs	31	282	3,031.01	2,823.58
(f) Depreciation and amortisation expense	32	282	3,920.12	3,802.96
(g) Other expenses	33	282	23,803.18	24,622.81
			54,196.66	57,474.22
Less: Expenditure (other than interest) transferred			1,671.13	799.70
Total expenses			52,525.53	56,674.52
V Profit before exceptional items and tax (III-IV)			8,314.56	16,341.48
VI Exceptional items:	34	283		
(a) Profit/(loss) on sale of non-current investments			-	262.28
(b) Provision for impairment of investments/doubtful advances			(1,149.80)	(12.53)
(c) Provision for demands and claims			(196.41)	(328.64)
(d) Employee separation compensation			(107.37)	(35.34)
(e) Fair value gain/(loss) on preference share investr			(250.00)	-
Total exceptional items			(1,703.58)	(114.23)
VII Profit before tax (V+VI)			6,610.98	16,227.25
VIII Tax expense:				
(a) Current tax			1,787.95	6,297.11
(b) Deferred tax			(1,920.77)	(603.05)
Total tax expense			(132.82)	5,694.06
IX Profit for the year (VII-VIII)			6,743.80	10,533.19
X Other comprehensive income/(loss)				
A (i) Items that will not be reclassified subsequently to profit and loss				
(a) Remeasurement gain/(loss) on post-employment defined benefit plans			(461.27)	5.95
(b) Fair value changes of investments in equity shares			(244.30)	(46.63)
(ii) Income tax on items that will not be reclassified subsequently to profit and loss			116.65	(2.63)
B (i) Items that will be reclassified subsequently to profit and loss				
(a) Fair value changes of cash flow hedges			(79.76)	(10.62)
(ii) Income tax on items that will be reclassified subsequently to profit and loss			19.81	3.71
Total other comprehensive income/(loss) for the year			(648.87)	(50.22)
XI Total comprehensive income/(loss) for the year (IX+X)			6,094.93	10,482.97
XII Earnings per share	35	284		
Basic (₹)			57.11	90.41
Diluted (₹)			57.11	90.40
XIII Notes forming part of the financial statements				

Total income

Total expenses

Exceptional Items

PBT

Tax

Net Profit (PAT)

Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2019, and March 31, 2020

(In millions of ₹, except per share data)

	Three-month period ended March 31, 2019	Three-month period ended March 31, 2020
Revenue	380,100	399,460
Cost of revenue	221,400	231,690
Gross margin	158,700	167,770
SG & A expenses	63,330	67,520
Operating income	95,370	100,250
Other income (expense), net	11,650	4,870
Income before income taxes	107,020	105,120
Income taxes	25,500	24,190
Income after income taxes	81,520	80,930
Minority interest	260	440
Net income	81,260	80,490
Earnings per share in ₹	21.65	21.45

16.10. Need for Financial Accounting

POETIC transliteration

Hisaab-e-dostaan karne hi se maalum ye hoga
 Khasaare mein hoon ya ab main khasaare se nikal aaya
 Javed Shahed

हिसाबे दोस्तों करने ही से मालूम ये होगा
 खसारे में हूँ या अब मैं खसारे से निकल आया
 जावेद शाहदि

حساب دوستاں کرنے ہی سے معلوم یہ ہوگا
 خسارے میں ہوں یا اب میں خسارے سے نکل آیا
 جاوید شاہد

POETIC TRANSLATION

*Oh, friends! I will know it after reviewing
 What if I am facing loss or out of it*

MANAGEMENT LESSON

The overall financial performance of a business is mainly determined based on the accounting system maintained and carried out in the organisation periodically. The business outcome is assessed based on the profit made or the loss incurred in addition to the organisation's financial position. Thus, the specific financial performance can be declared only after reviewing the income and financial statements.

16.9. Business Accounting, Profitability and Losses

POETIC TRANSLITERATION

Muddaten ho gayin hisaab kiye
 Kiya pata kitne rah gaye hain ham
 Vikas Sharma Raaz

मुद्दते हो गयी हिसाब किये
 क्या पता कतिने रह गये है हम
 विकास शर्मा राज

مدتیں ہو گئیں حساب کئے
 کیا پتہ کتنے رہ گئے ہیں ہم
 وکاس شرمراز

POETIC TRANSLATION

*A long time has passed since we counted the age
 There is no idea how many days remain now*

MANAGEMENT LESSON

There are a few essential accounting principles which organisations must follow namely, accounting period concept and verifiable objectives concept in order to analyse and interpret the overall performance of the business in terms of revenue generation and expenditure incurred, in addition to the profit or loss made.

16.6. Auditing and its Significance

POETIC TRANSLITERATION

Jo aayine se mila aayine pe jhunjhlaaya
kisi ne apni kami ki taraf nahin dekha
Manzar Bhopali

जो आईने से मिला आईने पे झुँझलाया
किसी ने अपनी कमी की तरफ नही देखा
मंजर भोपाली

جو آئینے سے ملا آئینے پہ جھنجھلایا
کسی نے اپنی کمی کی طرف نہیں دیکھا
منظر بھوپالی

POETIC TRANSLATION

*Anyone who sees the mirror, grudges on it
Nobody has considered his weaknesses*

MANAGEMENT LESSON

The functions of accounting and financial auditing in a few of the organisations are not well-recognised and appreciated by the individuals of the accounts and finance departments since they assume that it is a policing activity of the management. However, individuals in these departments who are not serious and careful about the errors have been regularly committing mistakes.

16.7. Financial Auditing and the Transparency

POETIC transliteration

Hamaare aeb kaheen mustaqil na ho jaayen
 Ham apne aap ko yoon aayina dikhaate hain
 Dr. Majid Deobandi

हमारे ऐब कहीं मुस्तक़लि न होजाएँ
 हम अपने आप को यूँ आईना दिखाते हैं
 डॉ. माजिद देवबंदी

ہمارے عیب کہیں مستقل نہ ہو جائیں
 ہم اپنے آپ کو یوں آئینہ دکھاتے ہیں
 ڈاکٹر ماجد دہلیوی

POETIC TRANSLATION

*Would not our errors be permanent
 It is our way to show the mirror by ourselves*

MANAGEMENT LESSON

The primary objective of financial auditing is to identify accounting and financial errors and to rectify them. Therefore, in the audit process, we not only have the internal periodical audit but also have an annual statutory review to make sure that the errors and mistakes are not permanent. It helps the organisation to bring transparency in the accounts and finance functions.

16.8. Need for Cost Control

POETIC TRANSLITERATION

Kaarobar main ab ke khasaara aur tarha ka hai
 Kaam nahin badhta hai mazdoori badhti jaati hai
 Iftekhar Arif

कारोबार में अब के ख़सारा और तरह का है
 काम नहीं बढ़ता है मज़दूरी बढ़ती जाती है
 इफ़्तेख़ार आरफ़ि

کاروبار میں اب کے خسارہ اور طرح کا ہے
 کام نہیں بڑھتا ہے مزدوری بڑھتی جاتی ہے
 افتخار عارف

POETIC TRANSLATION

*This time the loss of the business is of a different nature
 Though the activity is not rising the labour charges
 increase continuously*

MANAGEMENT LESSON

It is seen in the cost and management accounting function that the fixed recurring costs, particularly the salaries, rent and the interest on capital are increased periodically. In contrast, business operations and revenue remain stagnant. Therefore, management accountants should realise that cost-control and cost-minimisation are essential to achieve the objectives of profit maximisation. There is a negative correlation between the cost and the profit.

16.11. Return on Investment

POETIC transliteration

Karam be hisaab chaaha tha
 Sitam be hisaab mein guzri
 Faani Badayuni

करम बेहिसाब चाहा था
 सतिम बेहिसाब मे गुजरी
 फानी बदायूनी

کرم بے حساب چاہا تھا
 ستم بے حساب میں گزری
 فانی بدایونی

POETIC TRANSLATION

*I need a lot of favour
 Since I passed a life in abundant gloom*

MANAGEMENT LESSON

In the business scenario, all the investment projects have to generate adequate returns on investment which consists of recovering the cost of capital and an additional margin to improve the principle investment and meet other expenses. Thus, we must make sure that every investment proposal should have a decent return on investment that should usually be more than the cost of capital.

Thank You

Prof Mohammad Masood Ahmed

[Email: mescomasood@gmail.com](mailto:mescomasood@gmail.com)