

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Double Entry System

- Foundation of modern accounting
- Every transaction has two effects:
 - **Debit** (Left side of ledger)
 - **Credit** (Right side of ledger)
- Maintains accounting equation:
Assets = Liabilities + Owner Equity

Debit & Credit

- **Debit:**
 - Entry on the **left** side of ledger
- **Credit:**
 - Entry on the **right** side of ledger

Date	Particulars	L.F.	Debit	Credit
YYYY-MM-DD	Dr. Account Name		XXXX	
	To Cr. Account Name			XXXX
	(Narration / brief explanation)			

Key Accounting Terms

- **Goods / Merchandise:** Items bought for resale purpose
- **Purchases:** Saleable goods bought
 - Cash Purchase
 - Credit Purchase / Purchase on Account
 - Purchase Return (Return Outward)
- **Sales:** Goods sold to customers
 - Cash Sale
 - Credit Sale (Sale on Account)
 - Sale Return (Return Inward)

Key Accounting Terms

- **Debtors & Creditors**
- **Debtors (Accounts Receivable):**
 - Customers who bought goods on credit
- **Creditors (Accounts Payable):**
 - Suppliers from whom goods were bought on credit
- **Capital / Owner's Equity**
- Funds invested in the business
- Equities means sources of funds provided to start or to operate a business entity
- **Sources of Capital:**
 - Owners
 - External Parties (e.g., banks)

Key Accounting Terms

❖ Assets & Liabilities

- **Assets:**
 - Resources owned by the business
 - Provide future economic benefits
- **Liabilities:**
 - Debts or obligations of the business

❖ Revenue & Expenses

- **Revenue:**
 - Income from goods sold or services provided
- **Expenses:**
 - Costs incurred to earn revenue
- **Net Income = Revenue – Expenses**

Key Accounting Terms

❖ Who makes Drawings?

- Owners withdraw money or goods from the business for personal expenses or private use.

1. Is it an expense?

1. **No**, drawings are **not** considered a business expense.
2. They **reduce the owner's capital account**, not the business's profit.

2. How is it recorded?

1. **Debit:** Drawing Account
2. **Credit:** Cash/Inventory/Bank (depending on what is withdrawn)

Debit & Credit Rules

	Debit	Credit
Assets	↑	↓
Expenses	↑	↓
Loss	↑	↓
Drawing	↑	↓

	Dr.	Cr.
Liabilities	↓	↑
Revenue	↓	↑
Profit/ Income	↓	↑
Capital	↓	↑

Fundamental Categories of Accounts

- **Personal Account**
- Accounts related to **persons, organizations, or companies.**
- **Examples:**
- Asim's A/c (individual)
- ABC Ltd. A/c (company)
- Bank A/c (organization)
- Capital A/c, Drawings A/c
- **Debit the Receiver, Credit the Giver**
- **Real Account**
- Accounts related to **assets and properties** (both tangible and intangible).
- **Examples:**
- Cash A/c
- Furniture A/c
- Building A/c
- Machinery A/c
- Goodwill A/c (intangible asset)
- **Debit What Comes In, Credit What Goes Out**

Fundamental Categories of Accounts

- **Nominal Account**
- Accounts related to **expenses, losses, incomes, and gains.**
- **Examples:**
- Salary A/c
- Rent A/c
- Commission Received A/c
- Interest Income A/c
- Loss by Fire A/c
- **Debit All Expenses and Losses, Credit All Incomes and Gains**

Accounting Concepts

❖ **Separate Entity Concept**

- Business is a separate entity from the owner
- Personal transactions are not mixed with business accounts

❖ **Going Concern Concept**

- Business will continue to operate in the foreseeable future
- No plan to liquidate or shut down

Accounting Concepts

❖ Money Measurement Concept

- Only monetary transactions are recorded
- Examples of monetary events:
 - business owns, 1500 kg of stock
 - Purchase of car
- Examples of **non-recordable events**:
 - Passing an exam
 - Winning a prize
 - Delivering lecture in a meeting

❖ Cost Concept

- Assets are recorded at their **original purchase cost**
- Not adjusted for market value changes

Accounting Concepts

❖ Dual Aspect Concept

- Every transaction affects **two accounts**
- **debit and a credit**
- Maintains balance of:
 - **Assets = Liabilities + Capital**

❖ Accounting Period Concept

- Business life is divided into **fixed periods** (usually 1 year)
- Financial statements prepared periodically to:
 - Measure profit/loss
 - Compare performance
- Inform stakeholders

Accounting Concepts

❖ Matching Concept

- Expenses are matched to the **revenues they help earn**
- Helps accurately calculate profit for a period

❖ Realisation Concept

- Revenue is recorded when it is **earned**, not when received
- Focus is on **delivery of goods/services**, not cash collection

Accrual vs. Cash Accounting

❖ Accrual Accounting

- Revenues and expenses are recorded when they are earned or incurred, even if cash has not been received or paid yet.
- **Example:**
- You sell goods in September but get paid in October →
You record the revenue in September (when the sale happened)

❖ Cash Accounting

- Revenues and expenses are recorded only when cash is actually received or paid.
- **Example:**
- You sell goods in September but get paid in October →
You record the revenue in October.

General Journal

- The **General Journal** is the **book of original entry** in accounting, where **transactions** are first recorded in **chronological order**.
- Paid Salary Rs. 5,000

Date	Particulars	L.F.	Debit (RS)	Credit (Rs)
02-09-2025	Salary A/c Dr.		5,000	
	To Cash A/c			5,000
	(Being salary paid in cash)			

Ledger Accounts

- **Ledger Format**
- Each ledger account is maintained in a **T-account format**, which looks like this: The **General Ledger (GL)** is the **main book of accounts** in accounting

- **Salary A/c**

Date	Particulars	J.F.	Amount (Dr)		Date	Particulars	J.F.	Amount (Cr)
02-09-2025	To Cash A/c		5,000					

Date	Particulars	J.F.	Amount (Dr)		Date	Particulars	J.F.	Amount (Cr)
					02-09-2025	By Salary A/c		5,000

Ledger Accounts

- **Purpose of the General Ledger:**
- To keep a **complete and organized record** of all financial transactions.
- To help prepare the **Trial Balance, Financial Statements** (Profit & Loss, Balance Sheet), and reports.
- To monitor balances in each account (like Cash, Sales, Rent, etc.).

What is a Trial Balance?

- A **Trial Balance** is a statement prepared at a particular date to check the **arithmetic accuracy** of ledger postings. It lists the **debit** and **credit balances** of all accounts.

• Trial Balance as on 03-09-2025

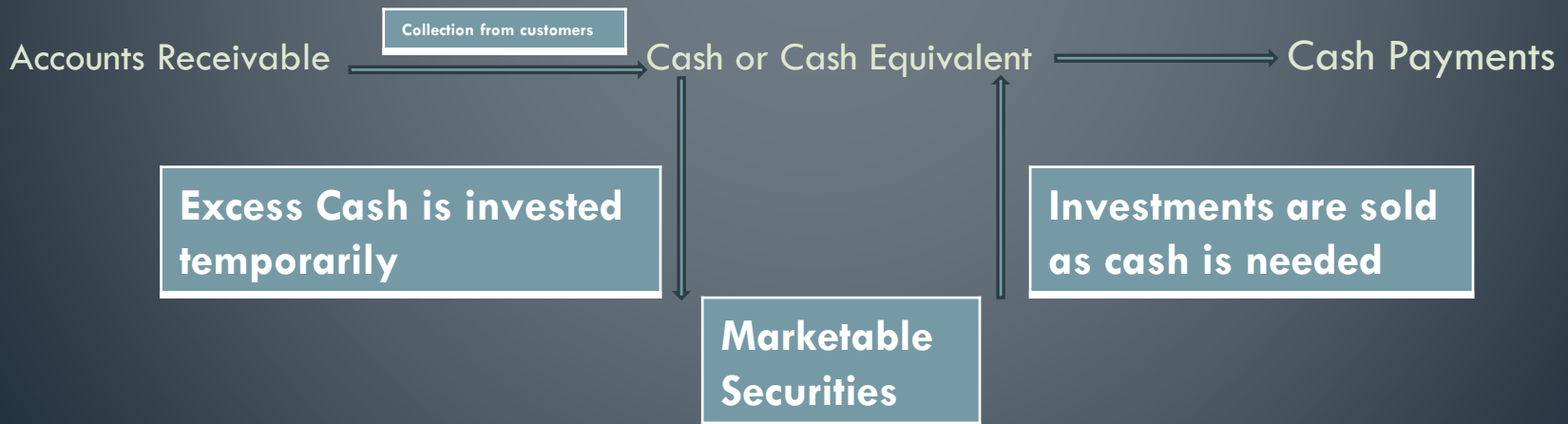
S. No.	Account Name	Debit (Rs)	Credit (Rs)
1	Salary A/c	5,000	
2	Cash A/c		5,000
	Totals	5,000	5,000

Financial Assets

Financial assets are a company's most liquid resources.

Types of Financial Assets

- Cash and Cash Equivalent
- Short-term Investment (Marketable Securities)
- Receivables



Financial Assets

Valuation of Financial Assets in Balance Sheet

- Cash or Cash Equivalent are recorded at **face Value**
- Marketable Securities are recorded at **current market value**
- Receivables are recorded at **net realized value**

Financial Assets

Marketable Securities (short-term investment)

- Investment in bonds and capital stock

Events Relating to Investment in Marketable Securities

- Purchase of Marketable Securities
- Recognition of Investment Revenue
- Sale of Investments
- Adjusting Marketable Securities to Market Value

Financial Assets

(1) Purchase of Marketable Securities

Marketable Securities
To Cash

(2) Recognition of Investment Revenue

Cash
To Dividend Revenue

(3) Sale of Investments

If Gain on Investment

Cash
To Marketable Securities
To Gain on sale of investments

If Loss on Investment

Cash
Loss on sale of Investments
To Marketable Securities

(4) Adjusting Marketable Securities to Market Value

Unrealized Holding Loss
To Marketable Securities

- **Title:** Accounting for Inventories
Subtitle: Cost Flow Assumptions under IFRS (IAS 2)
By: M. Usman

Introduction

- **Accounting for Inventories**
- Inventory valuation determines how costs are assigned to:
 - **Cost of Goods Sold (COGS)**
 - **Ending Inventory**
- Prices of goods often change due to:
 - Inflation
 - Market demand
- Different cost flow assumptions help calculate **profit** and **inventory value** accurately.

Main Cost Flow Assumptions

1. FIFO(First-In, First-Out)
2. LIFO (Last-In, First-Out)
3. Weighted Average Cost
4. Specific Identification Method

FIFO (First-In, First-Out)

Meaning:

- Oldest goods are sold first.

Explanation:

- Cost of earliest inventory → COGS
- Recent purchases → Ending inventory

Example:

100 units @ Rs.10 + 100 units @ Rs.12
→ First 100 sold at Rs.10

Effect:

- Lower COGS (rising prices)
- Higher profit
- Ending inventory at higher cost

Use:

- Common goods, inflationary period

LIFO (Last-In, First-Out)

Meaning:

- Newest goods are sold first.

Explanation:

- Recent purchases → COGS
- Oldest inventory → Ending inventory

Example:

100 units @ Rs.10 + 100 units @ Rs.12
→ First 100 sold at Rs.12

Effect:

- Higher COGS (rising prices)
- Lower profit
- Ending inventory at lower cost

Use:

- For tax savings (not allowed under IFRS)

Weighted Average Cost

Meaning:

- Average cost per unit = Total Cost ÷ Total Units

Example: $(100 \times 10 + 100 \times 12) \div 200 = \text{Rs.}11$ per unit

Effect:

- Smooths price fluctuations
- Moderate COGS & profit

Use:

- Interchangeable/bulk items (e.g., fuel, grains)

Specific Identification Method

Meaning:

- Each item tracked at its actual cost

Use:

- Unique, high-value items (cars, jewelry, real estate)

Effect:

- Most accurate cost matching
- Not practical for large volumes

Summary Table

Method	COGS (when prices rising)	Ending Inventory	Profit	Typical Use
FIFO	Lowest	Highest	Highest	Common goods, inflation period
LIFO	Highest	Lowest	Lowest	Tax savings, inflation period
Weighted Average	Moderate	Moderate	Moderate	Bulk, indistinguishable items
Specific Identification	Actual cost	Actual cost	Accurate	Unique/high-value items

Thank You