

A composite image featuring a calculator on the left, a line graph on a document in the center, and a stack of coins on the right. The entire scene is overlaid with a semi-transparent dark blue rectangle. The text 'FINANCIAL MANAGEMENT' is centered in white, bold, uppercase letters. Below it, 'Accounting and Auditing' is written in a white, italicized serif font. At the bottom left, a yellow box with a red border contains the text 'Lecture No. 1' in white. The background of the slide is a light brown, textured surface.

# FINANCIAL MANAGEMENT

*Accounting and Auditing*

Lecture No. 1

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

# FACUALTY PROFILE



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**Several Times Topper in  
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# BASICS OF ACCOUNTING



# *What is Accounting*

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*Normally called language of  
business*

# *What is Accounting*

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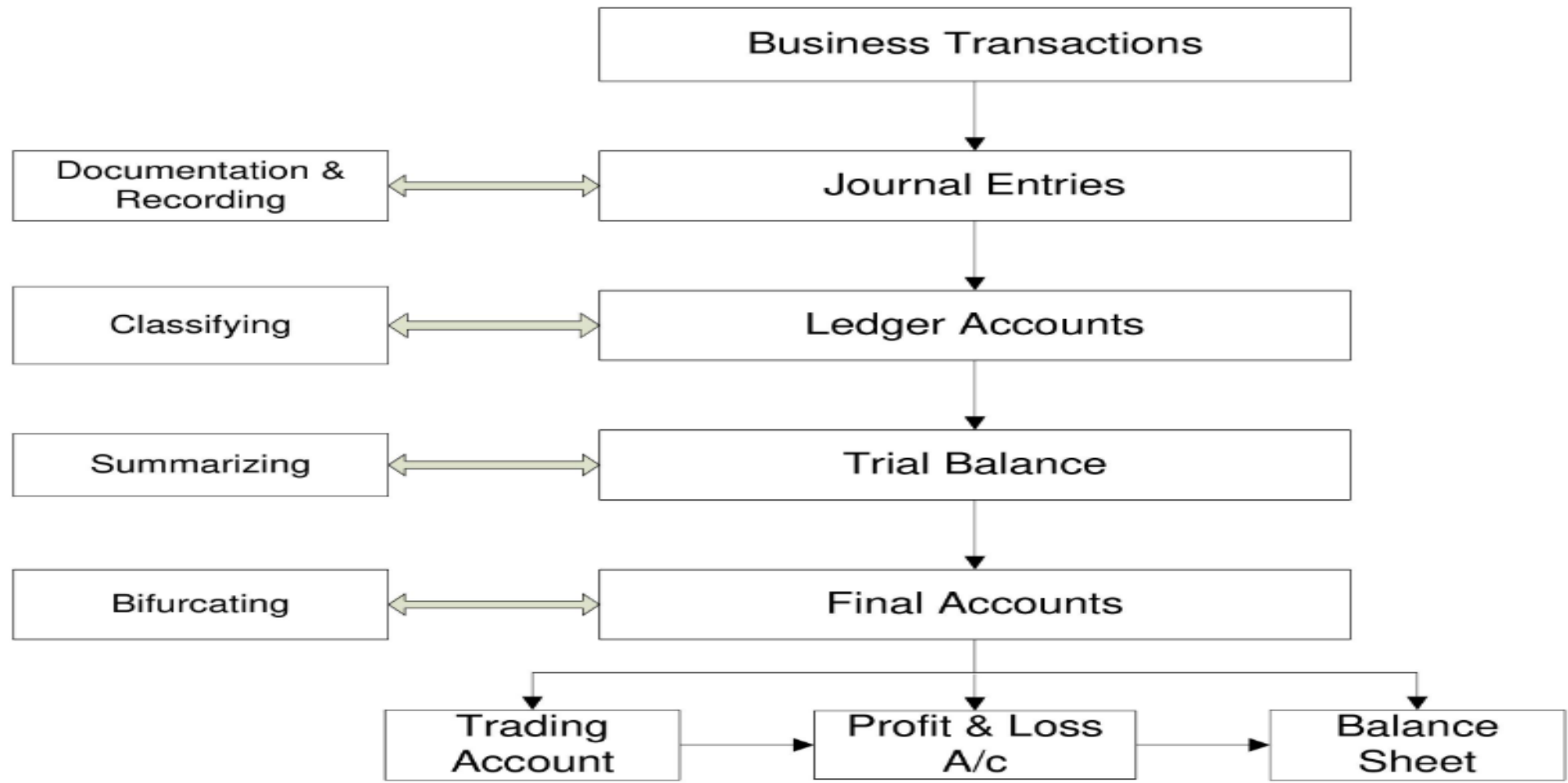
Accounting is the process of **recording, classifying, analyzing & interpreting** the business transactions which can be measured in terms of money. Accounting is done to ascertaining the financial position.

# What is Accounting?



- Accounting helps in knowing the true financial position of the business.
- Accounting provides all valid financial information to owners, banks, customers, government and other outside parties to make correct decisions.





# How Financial Management different to Accounting

## Finance and Accounting - Difference

<b>Finance</b>	<b>Accounts</b>
Procurement and Utilization of Funds	Recording of an Accounting Event
Leads to Investment Decisions	Expressed in Monetary Terms
Financing Decisions	Recording , Classifying and Summarizing Transactions
Futuristic	Preparation of Financial Statements (Trading, Profit and loss Account and Balance Sheet)
Cost of Capital	Historical

# What is an Account?



- An account is a device to record business transactions.
- There are various accounts prepared for each asset, liability, income and expenses.
- An account has two sides:

Particulars	Amount	Particulars	Amount

# What is Debit and Credit?



- Debit is the left hand side of an A/c.
- Thus amounts written on the left side of an account are called debits.
- Credit is the right side of an A/c.
- Thus amounts written on the right side of an account are called credits.

**Dr**

**Cr**

Particulars	Amount	Particulars	Amount

# Debit Balance & Credit Balance



- Every A/c has a debit balance or a credit balance.
- Debit Balance:
  - An account has a debit balance when the total of debit side is more than the total of credit side.
  - All assets and expenses have a debit balance.
  - For assets and expenses, an increase is written on debit side and a decrease on credit side.

# Debit Balance & Credit Balance



- **Credit Balance**
  - When the total of credit side is more than the total of debit side, it is known as a credit balance.
  - All liabilities and incomes have a credit balance.
  - For liabilities and incomes, an increase is written on credit side and decrease is written on debit side.



# *Basic Elements of Accounting*

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**Assets**

**Liabilities**

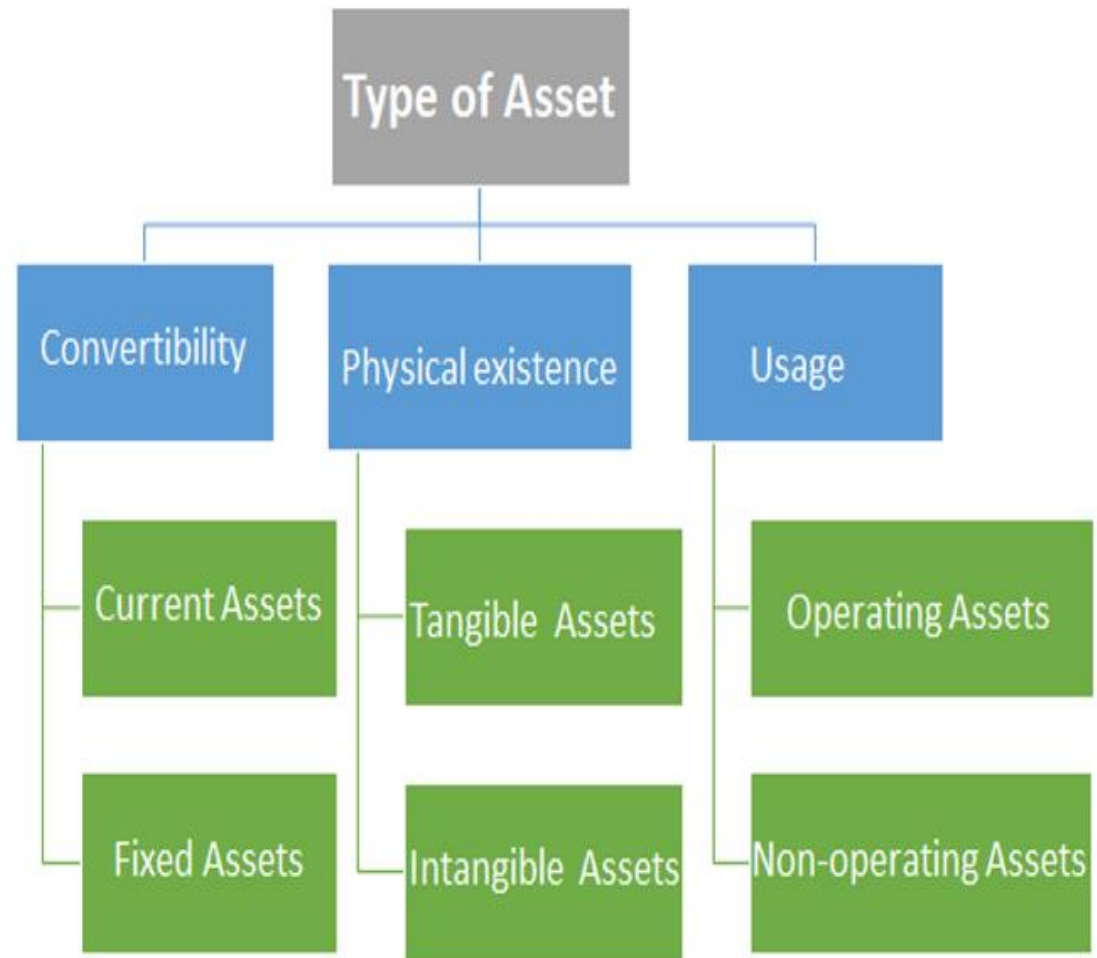
**Owner Equity**

**Revenues**

**Expenses**

# 1. ASSET

**An asset is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit.**



# Types of assets

Current Assets	Noncurrent Assets	Tangible Assets	Intangible Assets	Operating Assets	NonOperating Assets
Inventories	Property	Property	Goodwill	Cash	Goodwill
Trade Receivables	Plant	Plant	Patents	Inventory	Patents
Cash & cash equivalents	Equipment	Equipment	Trademarks	Trade Receivables	Investment Assets
Short term loans &	Patents	Furniture	Copyrights	Plant	
Prepaid Expenses	Trademarks	Computer	Brand	Equipment	
Bills Receivable		Truck		Computer	
				Bills Receivable	

## 2. Liabilities

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All debts that a company has yet to pay are referred to as **Liabilities**.

### Types of Liabilities

- **Current Liabilities**
- **Long term Liabilities**

- Types of liabilities;

- Long term liabilities:

- Any liability payable after a period exceeding 1 year.
- Eg: owner's capital, bank loans for more than a year

- Current Liabilities

- Any liability payable within a year or liabilities incurred in day to day course of business.
- Eg: creditors, payables, bank O.D or short term credit, etc.

# Examples



## 3. Expense

**An expense is a cost that businesses incur in running their operations. Expenses include wages, salaries, maintenance, rent, and depreciation.**

### **Types of Expenses**

- **Variable expenses.**

Expenses that vary from month to month (electricity, gas, groceries, clothing).

- **Fixed expenses.**

Expenses that remain the same from month to month (rent, cable bill, car payment)

# *Expenses vs expenditure*

**Expenses are those costs that incur to earn revenues.**

**In contrast,**

**Expenditures are those costs that incur to purchase or increase the value of the organization's fixed assets.**

**Expenses incur for a short-term basis, and expenditures incur for a long-term period**



## 4. Revenue (Sales)

Revenue is any money earned by the business.

### OPERATING REVENUE



Revenue you receive from your business's main activities

### NON-OPERATING REVENUE



Money earned from a side activity that isn't related to your business's day-to-day activities

# Examples

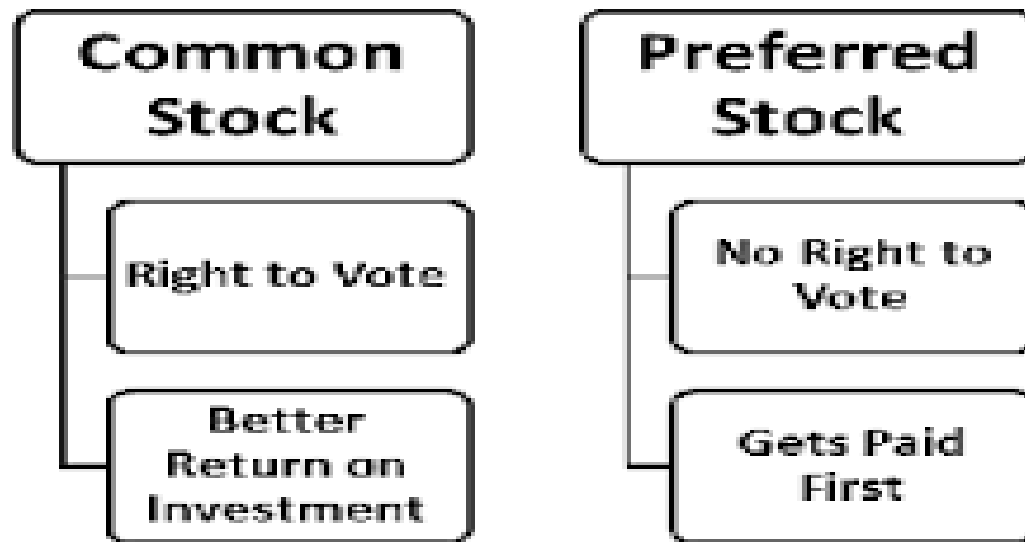
- Thus income is what the firms earns
- Eg:
  - Income from sales of goods,
  - Fees from sale of services,
  - Interest and dividends on investments,
  - Cash discounts,
  - Rent received,
  - Gain from sale of investment

# Accruals and deferrals **Terms**

	Now	Later
Accrued revenue	Revenue is recognized	Cash is received
Accrued expense	Expense is recognized	Cash is paid
Deferred revenue	Cash is received	Revenue is recognized
Deferred expense	Cash is paid	Expense is recognized

## 5. Owners Equity

Any thing that is invested in the business by the owner.



## 6. Drawing

A drawing in accounting terms includes **any money that is taken from the business account for personal use.**

Types of accounts	Debit (always on the left)	Credit (always on the right)
<b>Assets</b> represent the capacity of the business to provide goods.	Increase	Decrease
<b>Expenses</b> are the cost of used assets.	Increase	Decrease
<b>The owner's equity</b> is the value of assets belonging to the owner.	Decrease	Increase
<b>Liabilities</b> are assets owed to creditors.	Decrease	Increase
<b>Revenue</b> is profit from business activities.	Decrease	Increase



Thank  
You

**Q & A**

You have

**Questions**

We have

**Answers**