

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 background is a textured purple. The text is overlaid on a semi-transparent dark blue band.

# FINANCIAL MANAGEMENT

*Accounting and Auditing*

Lecture No. 05

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

# FACUALTY PROFILE



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(Lecturer Commerce)

**Several Times Topper in  
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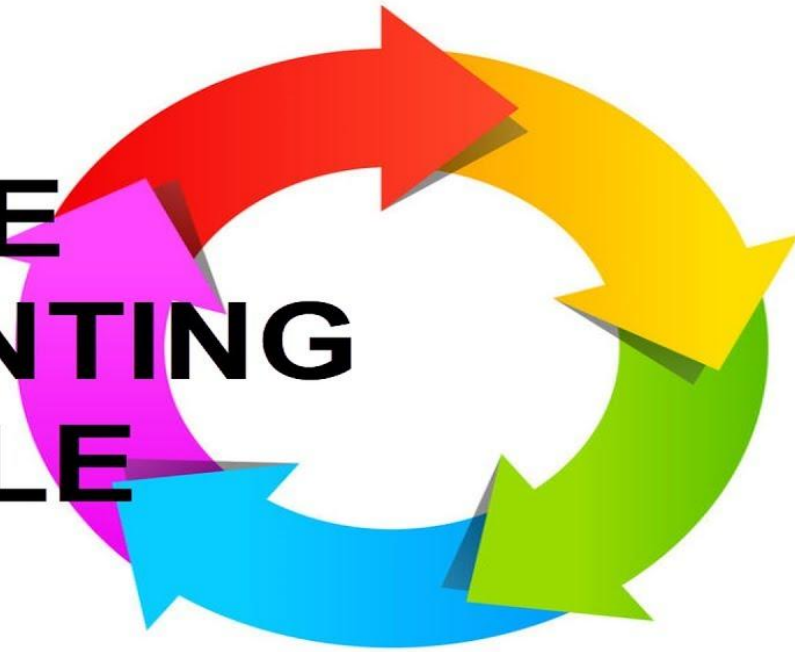
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# BASICS OF ACCOUNTING



# THE ACCOUNTING CYCLE



## What is Accounting

- Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business.
- Accounting also refers to the process of summarizing, analyzing and reporting of business transactions.



## What is Cycle

- A series of events that are regularly repeated in the same order.





## The Accounting Cycle

- The accounting cycle is the name given to be collective process of recording and processing the accounting events of a company.

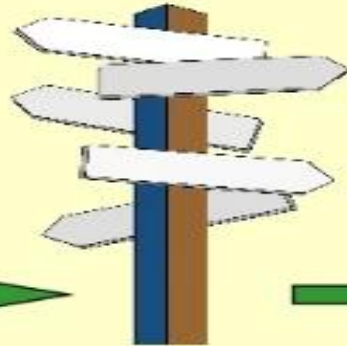


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# The Accounting Cycle



**Journalize transactions.**



**Post entries to the ledger accounts.**



**Prepare trial balance.**



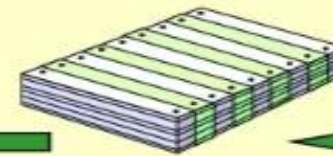
**Make end-of-year adjustments.**



**Prepare after-closing trial balance.**



**Journalize and post closing entries.**



**Prepare financial statements.**



**Prepare adjusted trial balance.**

## Source Documents

### Transactions:

- Every day an event occurs, it is written in a book.

### A FEW COMMON TRANSACTIONS



## Transactions

<b>2014</b>	<b>Particulars</b>	<b>Amount \$</b>
<b>Jan 1<sup>st</sup></b>	<b>MSDC &amp; Co started business with Cash</b>	<b>400000</b>
<b>Feb 1<sup>st</sup></b>	<b>Purchase goods for Cash</b>	<b>25000</b>
<b>March 1<sup>st</sup></b>	<b>Sold goods for Cash</b>	<b>50000</b>
<b>April 1<sup>st</sup></b>	<b>Purchased goods from Ali</b>	<b>20000</b>
<b>May 1<sup>st</sup></b>	<b>Sold goods to Ahmed</b>	<b>10000</b>
<b>June 5<sup>th</sup></b>	<b>Paid to Ali</b>	<b>10000</b>
<b>July 10<sup>th</sup></b>	<b>Received Cash from Ahmed</b>	<b>7000</b>
<b>Aug 15<sup>th</sup></b>	<b>Paid Wages</b>	<b>20000</b>
<b>Oct 10<sup>th</sup></b>	<b>Paid Rent</b>	<b>5000</b>
<b>Dec 31<sup>st</sup></b>	<b>Paid Salaries</b>	<b>10000</b>

# **Recording Transactions in Journal**



## General Journal

- ▶ The Journal is the point of entry of business transactions into the accounting system.

## Transaction 1

2014	Transaction	Amount \$
Jan 1 <sup>st</sup>	MSDC & Co started business with Cash	400000

Date	Description	Dr	Cr
Jan 1 <sup>st</sup>	Cash	400000	
	Capital		400000

(Cash invested by Owner in Business)

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

## Transaction 2

2014	Transaction	Amount \$
Feb 1 <sup>st</sup>	Purchased goods for Cash	25000

Date	Description	Dr	Cr
Feb 1 <sup>st</sup>	Purchases	25000	
	Cash		25000

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

(Purchased goods for cash)



## Transaction 3

2014	Transaction	Amount \$
March 1 <sup>st</sup>	Sold goods for Cash	50000

Date	Description	Dr	Cr
March 1 <sup>st</sup>	Cash	50000	
	Sale		50000

(Sold goods by Cash)

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

## Transaction 4

2014	Particulars	Amount \$
April 1 <sup>st</sup>	Purchased goods from Ali	20000

Date	Description	Dr	Cr
April 1 <sup>st</sup>	Purchases	20000	
	A/c Payable		20000

(Goods purchased from Ali on credit)

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

## Transaction 5

2014	Transaction	Amount \$
May 1 <sup>st</sup>	Sold goods to Ahmed	10000

Date	Description	Dr	Cr
May 1 <sup>st</sup>	A/c Receivable	10000	
	Sale		10000

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

(Goods sold to Ahmed on credit)

## Transaction 6

2014	Transaction	Amount \$
June 5 <sup>th</sup>	Paid to Ali	10000

Date	Description	Dr	Cr
June 5 <sup>th</sup>	A/c Payable	10000	
	Cash		10000

**(Paid Cash to Ali)**

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

## Transaction 7

2014	Transaction	Amount \$
July 10 <sup>th</sup>	Received Cash from Ahmed	7000

Date	Description	Dr	Cr
July 10 <sup>th</sup>	Cash	7000	
	A/c Receivable		7000

(Cash Received from Ahmed)

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

## Transaction 8

2014	Transaction	Amount \$
Aug 15 <sup>th</sup>	Paid Wages	20000

Date	Description	Dr	Cr
Aug 15 <sup>th</sup>	Wages Expense	20000	
	Cash		20000

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

(Paid wages by Cash)

## Transaction 9

2014	Transaction	Amount \$
Oct 10 <sup>th</sup>	Paid Rent	5000

Date	Description	Dr	Cr
Oct 10 <sup>th</sup>	Rent Expense	5000	
	Cash		5000

(Paid Rent by Cash)

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

## Transaction 10

2014	Transaction	Amount \$
Dec 31 <sup>st</sup>	Paid Salaries	10000

Date	Description	Dr	Cr
Dec 31 <sup>st</sup>	Salaries Expense	10000	
	Cash		10000

	Dr	Cr
A	INC	DEC
L	DEC	INC
C	DEC	INC
E	INC	DEC
R	DEC	INC

(Paid Salaries by Cash)



## General Ledger

- A separate page in a Ledger that records increases Or decreases in each balance accounts classified under assets, liabilities or owner equity.



Date	Description	Dr	Cr
April 1 <sup>st</sup>	Purchases	20000	
	A/c Payable		20000

Date	Description	Dr	Cr
Feb 1 <sup>st</sup>	Purchases	25000	
	Cash		25000

## Purchases Account

Date	Particulars	Debit	Date	Particulars	Credit
Feb 1 <sup>st</sup>	Cash	25000			
April 1 <sup>st</sup>	Account payable	20000			
		<u>45000</u>			

Date	Description	Dr	Cr
Jan 1 <sup>st</sup>	Cash	400000	
	Capital		400000

Date	Description	Dr	Cr
Feb 1 <sup>st</sup>	Purchases	25000	
	Cash		25000

## Cash Account

Date	Particulars	Debit	Date	Particulars	Credit
Jan 1 <sup>st</sup>	Capital	400000	Feb 1 <sup>st</sup>	Purchases	25000
March 1 <sup>st</sup>	Sales	50000	June 5 <sup>th</sup>	A/C Payable	10000
July 10 <sup>th</sup>	A/C Receivable	7000	Aug 15 <sup>th</sup>	Wages Exp	20000
			Oct 10 <sup>th</sup>	Rent Exp	5000
			Dec 20 <sup>th</sup>	Salaries Exp	10000
		457000			70000
		<u>70000</u>			
		<b>387000</b>			

Means Debit Balance

## Accounts Receivable

Date	Particulars	Debit	Date	Particulars	Credit
May 1 <sup>st</sup>	Sales	10000	July 10 <sup>th</sup>	Cash	7000
		<u>7000</u>			
		<u>3000</u>			

## Accounts Payable

Date	Particulars	Debit	Date	Particulars	Credit
June 5 <sup>th</sup>	Cash	10000	April 1 <sup>st</sup>	Purchases	20000
					_10000
					<u>10000</u>



## Capital Account

Date	Particulars	Debit	Date	Particulars	Credit
			Jan 1 <sup>st</sup>	Cash	400000
					<u>400000</u>

## Wages Exp Account

Date	Particulars	Debit	Date	Particulars	Credit
Aug 15 <sup>th</sup>	Cash	20000			
		<u>20000</u>			



## Rent Exp Account

Date	Particulars	Debit	Date	Particulars	Credit
Oct 10 <sup>th</sup>	Cash	5000			
		<u>5000</u>			

## Salaries Account

Date	Particulars	Debit	Date	Particulars	Credit
Dec 31 <sup>st</sup>	Cash	10000			
		<u>10000</u>			

## Trial Balance

- A listing of the accounts in the general ledger along with each account's balance in the appropriate debit or credit column. The total of the amounts in the debit column should equal the total of the amounts in the credit column.

**Trial Balance**  
**MSDC & Co**  
**31<sup>st</sup> Dec 2014**

<b>S/NO</b>	<b>Accounts</b>	<b>Debit</b>	<b>Credit</b>
01.	Cash	387000	
02.	Accounts Receivable	3000	
03.	Purchases	45000	
04.	Wages Expenses	20000	
05.	Rent Expenses	5000	
06.	Salaries Expenses	10000	
07.	Sales		60000
08.	Accounts Payable		10000
09.	Capital		400000
		<b>470000</b>	<b>470000</b>

# Financial Statements

Include:

- Income Statement
- Capital Statement
- Balance Sheet

## Income Statement

- The difference b/w revenues and expenses.
- If revenues exceed expenses, we have a Net Profit

**Or**

- If expenses exceed revenues, we have a Net Loss.

**Income Statement**  
**MSDC & Co**  
**31<sup>st</sup> Dec 2014**

<b>Sales</b>	<b>60000</b>	
<b><u>Less Purchases</u></b>	<b><u>45000</u></b>	<b>- 45000</b>
<b>Gross Profit</b>		<b>15000</b>
<b><u>Less Expenses:</u></b>		
<b>Wages Expenses</b>	<b>20000</b>	
<b>Rent Expenses</b>	<b>5000</b>	
<b>Salaries Expenses</b>	<b><u>10000</u></b>	<b>(35000)</b>
<b>Net Loss</b>		<b>-20000</b>

## Income Statement MSDC & Co 31<sup>st</sup> Dec 2014

S/NO	Accounts	Debit	Credit
01.	Cash	387000	
02.	Accounts Receivable	3000	
03.	Purchases	45000	
04.	Wages Expenses	20000	
05.	Rent Expenses	5000	
06.	Salaries Expenses	10000	
07.	Sales		60000
08.	Accounts Payable		10000
09.	Capital		400000
		470000	470000

<b>Sales</b>	<b>60000</b>	
<b><u>Less Purchases</u></b>	<b><u>45000</u></b>	<b>- 45000</b>
<b>Gross Profit</b>		<b>15000</b>
<b><u>Less Expenses:</u></b>		
<b>Wages Expenses</b>	<b>20000</b>	
<b>Rent Expenses</b>	<b>5000</b>	
<b>Salaries Expenses</b>	<b><u>10000</u></b>	<b>(35000)</b>
<b>Net Loss</b>		<b>-20000</b>



## Capital Statement

- It's the document which presents the opening balance of the capital then any kind of the addition in the shape of profit earned during the accounting period and deduct any kind of with drawls .

## Capital Statement/Owner Equity

MSDC & Co

31<sup>st</sup> Dec 2014

Capital	<b>400000</b>
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<u>Less</u> Net Loss	<b><u>- 20000</u></b>
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<b>Owner Equity</b>	<b>380000</b>
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## Balance Sheet

- A balance sheet is a final statement that summarizes a company's assets, liabilities and owner equity at a specific point in time.

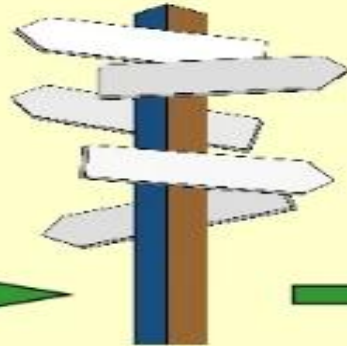
Balance Sheet  
MSDC & Co  
31<sup>st</sup> Dec 2014

<b>Assets</b>	Amount	<b>Liab. &amp; Owner EQ</b>	Amount
Cash	387000	<b>Liabilities:</b>	
Accounts Receivable	3000	Accounts Payable	10000
		<b>Owner Equity:</b>	
		Owner Equity	380000
		<b>Liab + Owner Equity</b>	
	<b>390000</b>		<b>390000</b>

# The Accounting Cycle



**Journalize transactions.**



**Post entries to the ledger accounts.**



**Prepare trial balance.**



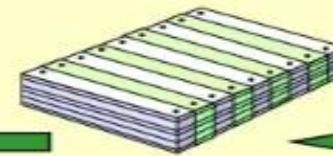
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**Prepare after-closing trial balance.**



**Journalize and post closing entries.**



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**Revise ur Concepts  
Notes Available link**

<https://everythingaboutaccounting.info/2019/11/accounting-cycle-10-steps-of-accounting.html#2-journalizing>



Thank  
You

**Q & A**

You have

**Questions**

We have

**Answers**