



M2i Consulting

Microfinance Management & Investment Advisory

Book-keeping

B-86 Kendriya Vihar

Sector 56 Gurgaon 122 003 India

www.m2iconsulting.com

Table of content:



- 1. Elements of Financial Statement.**
- 2. Accounting.**
- 3. Financial Statements.**



Elements of financial Statement

Elements of financial statement:



- **Assets-** are the resources controlled by the enterprise as a result of past events and from where future benefits are expected to flow. Physical and non physical e.g. patents copyrights etc.
- **Liabilities-** are the obligation of the enterprise arising from the past events.
- **Equity-** residual interest in the assets of the enterprise after deducting the liabilities = share capital + reserves and surplus.

Assets, liabilities and equity



Assets

- Cash in hand
- Cash at Bank
- Inventory
- Land
- Building
- Loan given

Liabilities

- Loans taken

Equity

- Owner's contribution
- Profit/loss

Elements of financial statement:



- **Income-** is increase in economic benefits during the accounting period in form of inflows or enhancements of assets or decreases in liabilities that result in increase in equity.
- **Expenses-** decrease in economic benefits during the accounting period in form of out flows.

Not all cash inflow is income



Not all cash inflow is income



Accounting

what is accounting system?



Accounting System is the part of total information system that measures, processes, processes and communicates financial information about an identifiable economic entity.

Objectives of accounting system



Accounting focuses on the needs of decision makers who use accounting information, whether those decision makers are inside or outside the business.



- **Documentation** of business transactions (voucher).
- **Recording** of vouchers. (journal)
- **Classifying** the transactions so recorded by their nature. (ledger)
- **Summarizing** the transaction so that to understand and appreciate the total buildup. (trial balance)

Concepts of Accounting:



Separate Legal Entity Concept:

A business is a separate entity, distinct from its creditors & customers & from its owners.

All the records are kept from the viewpoint of the business rather than from that of the owner.



Going Concern:

The owners have no intention nor have they necessity to wind up or liquidate its operation. for e.g. Depreciation procedures rests upon this concept.



Cost concept:

The resources that a business owns are called Assets. This concept states that 'an asset is worth the price paid for or cost incurred to acquire it.

Types of account



Personal A/C

Real A/C

Nominal A/C

**Individuals,
Firms,
Companies,
Banks, etc.**

**Cash, L/B, P/M,
Goodwill,
Goods &
Services**

**Relate to
Expenses or
losses or
Incomes or
Profits.**

Rules of Debit and Credit



	Personal Account	Real Account	Nominal Account
Debit	The Receiver	What Comes In	All Expenses & Losses
Credit	The Giver	What Goes Out	All Incomes & Gains



Principle: Double Entry System

**For Cash
Transactions**

**For Credit
Transactions**

Cash Book

Journal

Ledger

Output Trial Balance

P/L Account

P/L Transferred to B/S

B/S

Recording of Transactions



**Cash
Transactions**

**Non-Cash
Transactions**

**Recorded in
Cash Book**

**Recorded in
Journal**

**Ledger: Classified
Summary of all
Transactions**

Journal



The Books of Accounts maintained by an organization other than the cash book may be classified into Journals and Ledgers.

The Journal is used as the book of first entry for all transactions which cannot be recorded in the cash book. In other words, all non-cash transactions should be recorded in the Journal.

Some of the subsidiary books are:



1.Purchase Book. 2.Purchase Return Book.

3.Sales Book. 4.Sales Return Book.

5.Bills Receivable Book.

6.Bills Payable Book.

**7.Journal Proper records all the
transactions which cannot be recorded
either in cash book or any other books
mentioned above.**



Financial Statements



The Balance Sheet (Sources and Application of Funds)

The balance sheet presents a summary of a firm's financial position in terms Sources (Liabilities) and Application (Assets) of funds .at a given point in time

Assets indicate what the firm owns, equity represents the owners' investment, and .liabilities indicate what the firm has borrowed



The Income Statement

The income statement provides a financial summary of a company's operating results during a specified period in terms of incomes and gains, expenses and losses

Although they are prepared annually for reporting purposes, they are generally computed monthly by management and quarterly for tax purposes



Incomes	Mar	Apr	May	Total
Income from fax				
Income from telephone				
Other Income				
Total Income				
Salaries				
Net Financial Margin				
Other expenses				
Profit/loss				



Statement of Cash Flows

The statement of cash flows provides a summary of the cash flows over the period .of concern, typically the year just ended

This statement not only provides insight into a company's investment, financing and operating activities, but also ties together the income statement and previous and .current balance sheets



Assets	Mar
Inflow Opening - cash in Hand Opening - cash at Bank income from fax income from telephone Other Incomes Total Inflows	
Outflows salaries purchase repayment of loan P+I Closing – cash in Hand Closing – cash at Bank other expenses Total Outflows	

