

Lecture 1

Financial Accounting – Introduction

Basic concepts of Accounting Equation, Recording Transactions, Trial Balance.

- Accounting – the process of recording, sorting and summarizing data resulting from business transactions.
- Property – Building, Equipment, Cash, etc. - Assets
- Business Transaction – Occurrence of an event that involves transfer of goods or rendition of services which must be recorded.
- Right to property – right of owners, right of creditors
- Liabilities + Capital = Assets

Example:

a) Ahmed deposits Rs 19,000 in bank to start canteen business with the name of Ahmed Inc.

Capital		=	Assets
Ahmed, Capital			Cash
(a)	19,000		19,000

b) Ahmed Inc. purchases kitchen equipment for canteen for Rs 17,400 cash

Capital		=	Assets	
Ahmed, Capital			Cash	+ Equipment
Bal.	19,000		19,000	
(b)			-17,400	+17,400
Bal.	19,000		1,600	17,400

c) During the month it purchases food supplies for Rs 650 agreeing to pay cash in future.

Liabilities		+	Capital	=	Assets		
Trade Creditors		+	Ahmed, Capital		Cash	+	Supplies + Equipment
Bal.			19,000		1,600		17,400
(c)	+650						+650
Bal.	650		19,000		1,600		650 17,400

d) During the month Ahmed Inc. pays Rs 300 to the creditors.

Liabilities		+	Capital	=	Assets		
Trade Creditors		+	Ahmed, Capital		Cash	+	Supplies + Equipment
Bal.	650		19,000		1,600		650 17,400
(d)	- 300				-300		
Bal.	350		19,000		1,300		650 17,400

e) During the month Ahmed Inc. had sales of Rs 2,000.

Liabilities		+	Capital	=	Assets		
Trade Creditors		+	Ahmed, Capital		Cash	+	Supplies + Equipment
Bal.	350		19,000		1,300		650 17,400
(e)	Sales		2,000		+2,000		
Bal.	350		21,000		3,300		650 17,400

f) Various business expenses incurred and paid were: wages Rs 550, rent, Rs 50, utilities, Rs 25, miscellaneous Rs 75.

Liabilities		+	Capital	=	Assets		
Trade Creditors		+	Ahmed, Capital		Cash	+	Supplies + Equipment
Bal.	350		21,000		3,300		650 17,400
(f)	Wages Exp		-550		-700		
	Rent Exp		- 50				
	Utilities Exp		- 25				
	Misc Exp		- 75				
Bal.	350		20,300		2,600		650 17,400

g) At the end of the month Ahmed finds out that total food supplies left are worth Rs 250.

Liabilities		+	Capital	=	Assets		
	Trade Creditors		Ahmed, Capital		Cash	+	Supplies + Equipment
Bal.	350		20,300		2,600		650 17,400
(g)	<i>Supplies Exp</i>		-400				-400
Bal.	350		19,900		2,600		250 17,400

h) Ahmed determined that the equipment has become older after using for one month and its useful life has reduced, thus there is need to reduce the value of the equipment with an expense called Depreciation.

Liabilities		+	Capital	=	Assets			
	Trade Creditors		Ahmed, Capital		Cash + Supplies + Equipment – Acc. Dep			
Bal.	350		19,900		2,600	250	17,400	
(h)	<i>Dep Exp</i>		-200					-200
Bal.	350		19,700		2,600	250	17,400	-200

i) At the end of the month, Ahmed withdrew Rs 500 from the business.

Liabilities		+	Capital	=	Assets			
	Trade Creditors		Ahmed, Capital		Cash + Supplies + Equipment – Acc. Dep			
Bal.	350		19,700		2,600	250	17,400	
(i)	<i>Drawings</i>		-500		-500			-200
Bal.	350		19,200		2,100	250	17,400	-200

Trial Balance (Basic)

Liabilities Accounts

Ahmed, Capital	19,000
Drawings	(500)
Trade Creditors	350
Sales	2,000
Dep Exp	(200)
Supplies Exp	(400)
Wages Exp	(550)
Rent Exp	(50)
Utilities Exp	(25)
Misc Exp	(75)

Asset Accounts

Cash	2,100
Supplies	250
Equipment	17,400
Accumulated Dep	-200

Total	19,550
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Total	19,550
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Lectures Plan

Week	1 st Lecture	2 nd Lecture
1	Financial Accounting – Introduction	Financial Statements
	<i>Basic concepts of Accounting Equation, Recording Transactions, Trial Balance.</i>	<i>Balance Sheet, Profit & Loss, Debit & Credit</i>
2	Current Assets & Liabilities	Fixed Assets
	<i>Debtors & Creditors, Deferrals & Accruals, Valuation of inventories, Impact of inventory valuation on P&L</i>	<i>Fixed Assets, Concept of useful life & Depreciation</i>
3	Managerial Accounting – Introduction	Unit Costing
	<i>Cost Accumulation & Assignment, Direct & Indirect Cost</i>	<i>Variable & Fixed Cost, Total & Units Cost, Cost of Goods Sold</i>
4	Cost-Volume-Profit Relationship	CVP in Textiles
	<i>Contribution Margin, Gross Margin, Break Even, Sensitivity Analysis</i>	<i>Analysis of Spinning, Weaving & Dyeing wrt Contribution Margin & Break Even</i>
5	Costing Systems I	Costing Systems II
	<i>Job Costing</i>	<i>Process Costing</i>
6	Advanced Costing Systems	ABC Uses in Textiles
	<i>Activity Based Costing</i>	<i>Analysis of Dyeing & Printing wrt Activity Based Costing.</i>
7	Budgets & Variances	Budgeting in Textiles
	<i>Role of Budgets, Price & Efficiency Variances</i>	<i>Role of Budgets, Price & Efficiency Variances, Analysis of Spinning wrt to Budgets</i>
8	Mid Term	Review of Spinning Calculations
		<i>Count, OPS, Total Production, Yield in Carded & Combed Yarns,</i>
9	Simple Yarn Costing	Optimal Yarn Mix
	<i>Raw Materials, Variable Production Costs, Export Costs, Contribution</i>	<i>Maximization of Contribution Margin</i>
10	Review of Weaving Calculations	Simple Fabric Costing
	<i>Denier, Fabric Weight, Production per Day, B-grade Adjustments</i>	<i>Raw Materials, Variable Production Costs, Export Costs, Contribution</i>
11	Final Fabric Costing	Costs in Dyeing
	<i>Raw Materials, Variable Production Costs, Export Costs, Contribution</i>	<i>Wastages, Energy, Dyes & Chemicals, Labor, Machines</i>
12	Simple Dyed Fabric Costing	Concept of Routes
	<i>Raw Materials, Dyes & Chemicals, Overhead</i>	<i>Impact of using Different Routes on Cost</i>
13	Plant Machinery Analysis	Final Dyeing Costing
	<i>Machine Capacities, Utilisation, Bottleneck</i>	<i>Utilities, Fixed Costs, Cost per Metre by Route</i>
14	Stitching Costing I	Stitching Costing II
	<i>Linear Rating, Fabric Consumption, Accessories, Labor</i>	<i>Order Costing, Overhead Absorption, Profitability</i>
15	Revision	Overview
	<i>Review of Costing Cases</i>	<i>Recap session</i>
	Final	