"Financial Reporting"

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'Financial Reporting is the process by which general purpose financial information about an entity is provided to the people outside the business organization.

HOW?

Financial Statements

'Set of Accounting Reports that are the principal means of reporting general-purpose financial information to persons or entities outside the organization'

Complete Set of Financial Statements includes(4 FS):

INCOME STATEMENT

BALANCE SHEET

STATEMENT OF OWNER'S EQUITY

STATEMENT OF CASH FLOWS

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT/STATEMENT OF PROFIT OR LOSS

Income Statement is a financial statement that states 'Operating Result' of a business entity for a year.

Kinds of Operating Result:

1) Net Profit → Revenue > Expense
2) Net Loss → Revenue < Expense
3) Breakeven → Revenue = Expesne

BALANCE SHEET/ STATEMENT OF FINANCIAL POSITION

Balance Sheet is a financial statement that states the 'financial position' of business entity as at the year end by indicating:

1) The resources (Assets) it controls
2) The debt that it owes(Liabilities) and
3) The amount of owner's equity

STATEMENT OF OWNER'S EQUITY

Statement of Owner's Equity is a financial statement that shows owner's equity and explaining the certain changes that have taken place in it during the year.

STATEMENT OF OWNER'S EQUITY

Causes of Changes in Owner's Equity:

1) Increase in Owens's Equity:
   a) Investment
   b) Net Income
2) Decrease in Owner's Equity:
   a) Drawing
   b) Net Loss

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STATEMENT OF CASH FLOWS

Statement of Cash Flows is a financial statement that shows aggregate data relating to all cash inflows and cash outflows of an entity for the year.

Business Activities are of following 3 kinds:

1. Operating Activities
2. Investing Activities
3. Financing Activities

ACCOUNTING PRINCIPLES / STANDARDS/ CONVENTIONS/ ASSUMPTIONS/CONCEPTS/ RULES/GAAP/GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These are the rules and guidelines given by FASB and IASB that an entity is to follow while maintaining and reporting information about the entity.

ACCOUNTING STANDARDS SETTING AND RELEVANT BODIES AND RELEVANT RULES/STANDARDS

Financial Accounting Standard Board-FASB → Generally Accepted Accounting Principles-GAAP

International Accounting Standard Board-IASB → International Accounting Standards-IAS & International Financial Reporting Standards

Securities and Exchange Commission of Pakistan-SECP

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TIME PERIOD PRINCIPLE

Time Period Principle states that a business should report the financial result of its activities over a standard time period which may be 1, 3, 6 or 12 months.

This period is referred to as 'Accounting/Financial Year or Period'

1. Accounting Year VS.Calendar Year
2. Accounting Year VS. Fiscal Year

PRINCIPLE OF CONSISTENCY

'Principle of Consistency states that an accounting method or procedure once chosen should be used consistently moving forward.'

What will happened if we change any accounting methods or procedures once chosen?

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REALISATION PRINCIPLE-REVENUE RECOGNITION PRINCIPLE

'Realization Principle states that revenue is considered as earned when services are rendered or goods are delivered to customers.No matter cash is received or not'

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MATCHING PRINCIPLE-EXPENSE RECOGNITION PRINCIPLE

'Matching Principle states that expenses incurred should be recorded in the same period in which the related revenue is earned/related benefits are received.'

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BASIS OF ACCOUNTING

There are two basis of accounting

- Cash Basis
- Accrual Basis

CASH BASIS OF ACCOUNTING

'Cash Basis of Accounting is the practice of:

1) Recording revenue when cash has been received, and
2) Recording expenses when cash has been paid out.

ACCRUAL BASIS OF ACCOUNTING

'Accrual Basis of Accounting is the practice of:

1) Recording revenue as per the realization principle, and
2) Recording expenses as per matching principle.

ADJUSTING ENTRIES

Adjusting entries are made just to update the balances of following as per realization , matching principle and other accounting standards(Supporting accrual basis of accounting:

1. Assets
2. Liabilities
3. Revenue
4. Expense