

# "Financial Reporting"

*'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  $\rightarrow$  Revenue  $>$  Expense*
- 2) Net Loss  $\rightarrow$  Revenue  $<$  Expense*
- 3) Breakeven  $\rightarrow$  Revenue  $=$  Expense*

# 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 Owner's Equity:

- a) Investment
- b) Net Income

### 2) Decrease in Owner's Equity:

- a) Drawing
- b) Net Loss

# 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:*

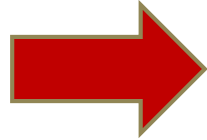
- 1. Operating Activities*
- 2. Investing Activities*
- 3. Financing Activities*

# 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.*

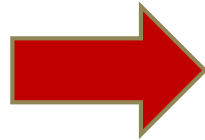
# ACCOUNTING STANDARDS SETTING AND RELEVANT BODIES AND RELEVANT RULES/STANDARDS

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

## 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 happen if we change any accounting methods or procedures once chosen?*

# REALISATION PRINCIPLE-REVENUE RECOGNITION PRINCIPLE

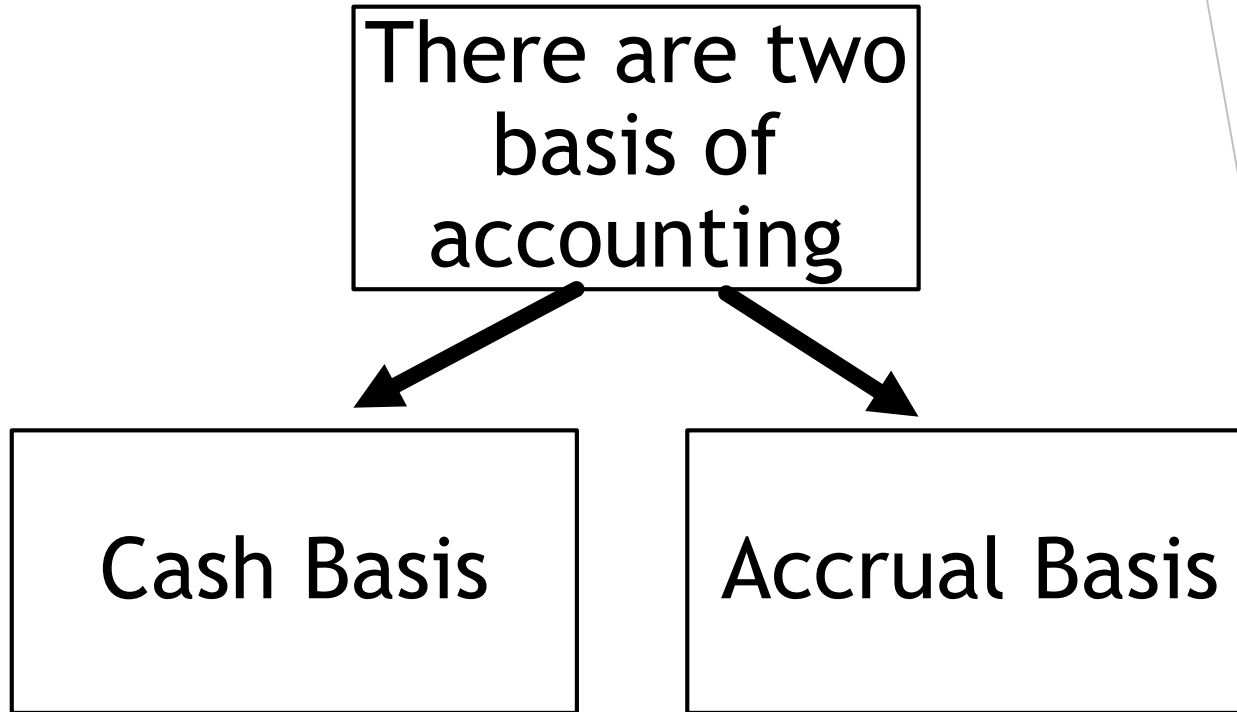
*'Realization Principle states that revenue is considered as earned when services are rendered or goods are delivered to customers. No matter cash is received or not'*

# 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.'*



# BASIS OF ACCOUNTING



# 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*