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# **FUNDAMENTALS OF FINANCIAL ACCOUNTING AND CONCEPTS**

Accounting fundamentals encompass the core principles, concepts, and processes used to record, analyze, and report financial information for businesses and organizations. These fundamentals include understanding financial statements like the income statement, balance sheet, and cash flow statement, as well as key concepts like assets, liabilities, revenue, and expenses

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# FINANCIAL RECORDS

Maintaining accurate and up-to-date financial records is crucial for the success and long-term sustainability of any business. These records provide a clear picture of a company's financial health, enabling informed decision-making and effective financial planning.

Accurate records help businesses track income, expenses, assets, and liabilities, ensuring compliance with tax regulations and providing a comprehensive understanding of the company's financial standing.



# UNDERSTANDING DOUBLE ENTRY SYSTEM OF ACCOUNTING

The double-entry system of accounting is a method where each financial transaction is recorded in at least two accounts, with a debit and a credit entry. This system ensures that the fundamental accounting equation ( $\text{Assets} = \text{Liabilities} + \text{Equity}$ ) remains balanced. Essentially, every transaction has two sides, a "giving" and a "receiving," which are recorded as a debit and a credit, respectively.





# BOOKKEEPING BASICS

## Record Keeping

Bookkeeping involves systematically recording all financial transactions, from sales and purchases to expenses and income. Maintaining accurate records is essential for understanding your business's financial health.

## Double-Entry System

The double-entry system is the foundation of modern bookkeeping. It requires that each transaction be recorded in at least two accounts - a debit and a credit. This ensures the books are always in balance.

## Journals and Ledgers

Transactions are first recorded in a journal, which is a chronological listing of all financial activity. They are then posted to the appropriate accounts in the general ledger, which serves as the central record of a business's finances.

## Reconciliation

Reconciling bank statements, accounts receivable, and accounts payable helps identify any discrepancies or errors. This ensures the financial records accurately reflect the business's true financial position.



# UNDERSTANDING THE DOUBLE ENTRY SYSTEM

## Definition of Double Entry System

A bookkeeping method where each transaction affects at least two accounts, ensuring accuracy.

## Core Principle

For every debit entry, there is an equal and corresponding credit entry, maintaining balance.

## Purpose of the System

To ensure financial accuracy, detect errors early, and maintain complete records of transactions.

## Historical Origin

Developed by Luca Pacioli in 1494, the Father of Accounting, marking a significant advancement in bookkeeping.



# FUNDAMENTAL RULES OF DOUBLE ENTRY SYSTEM

## Personal Account Rule

Debit the Receiver, Credit the Giver

## Real Account Rule

Debit what Comes in, Credit what Goes Out

## Nominal Account Rule

Debit all Expenses & Losses and Credit all Incomes and Gains

# FUNDAMENTAL ACCOUNTING PRINCIPLES

## Accrual Basis

Revenues and expenses are recorded when they are earned or incurred, not when cash is received or paid.

## Double-Entry Accounting

Every business transaction is recorded as a debit and a corresponding credit, ensuring the books are always in balance.

## Consistency

Accounting methods and practices must be applied consistently across reporting periods to ensure financial statements are comparable.

## Full Disclosure

Financial statements must provide all material information needed for users to make informed decisions about the company.



# 5 BASIC ACCOUNTING PRINCIPLES

- Going Concern principle.
- The Accrual principle.
- The Matching principle.
- The Cost principle.
- The Objectivity principle.



# GOING CONCERN PRINCIPLE

This assumes that a business will continue operating for the foreseeable future, allowing for the consistent application of accounting methods and valuation of assets.





# ACCRUAL PRINCIPLE

This principle dictates that transactions are recognized when they occur, regardless of when cash is exchanged. For example, revenue is recorded when earned, not when payment is received.





# MATCHING PRINCIPLE

This principle requires that expenses be recognized in the same period as the revenues they helped generate. For instance, the cost of goods sold is matched with the revenue generated from selling those goods.



# COST PRINCIPLE

Also known as the historical cost principle, this states that assets are initially recorded at their purchase price. This principle helps maintain consistency and objectivity in financial reporting.





# OBJECTIVITY PRINCIPLE

This principle emphasizes the use of verifiable, factual data to record financial transactions. It ensures that financial statements are free from bias and based on reliable evidence.





# FINANCIAL STATEMENTS

Balance Sheet, Income Statement, and Cash Flow Statement



## Balance Sheet

Provides a snapshot of a company's assets, liabilities, and equity at a specific point in time.



## Income Statement

Measures a company's financial performance by tracking its revenues, expenses, and net income over a period of time.



## Cash Flow Statement

Outlines the inflows and outflows of cash, helping to understand a company's liquidity and ability to meet financial obligations.

# PRACTICE & LEARN

Pass the necessary journal entries in the book of Raghav from the following transactions:

- (a) On 1 April 2023, Opened a Bank Account by depositing ₹50,000.
- (b) On 7 April 2023, Goods were brought for ₹10,000, and payment was made by cheque.
- (c) On 9 April 2023, Ravi (the debtor) directly deposited an amount of ₹40,000 in Raghav's account.
- (d) On 15 April 2023, cash withdrawn ₹5,000 for personal use.
- (e) On 21 April 2023, Sold goods to Ankit for ₹30,000 at a cash discount of 10% and received a cheque for the full amount deposited into the bank the same day.
- (f) On 26 April 2023, The cheque received from Ankit was dishonored.
- (g) On 29 April 2023, the Bank charged interest for ₹500.
- (h) Depreciation Charged on Machinery Rs.5000
- (i) Amar who owed Rs.20000 was declared as insolvent





# TAKEAWAYS

In this comprehensive overview of business accounting, we've explored the essential principles, practices, and tools to help businesses manage their finances effectively. By implementing these strategies, you can drive financial success and make informed decisions to propel your organization forward.







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# THANK YOU

***I hope you found this overview of business accounting informative and valuable. By understanding the fundamental principles and implementing effective financial management strategies, you can enhance your business's financial performance and drive success.***

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