

محاضرة (7)

- **Basic Financial Statements** القوائم المالية الأساسية

The accounting process (also called the accounting cycle) consists of the following groups of functions:-

- (1) Accounting observes many events and identify and measure in financial terms those events considered evidence of economic activity.
- (2) The evidence events are recorded, classified into meaningful groups and summarized for conciseness.
- (3) Accountants report a business activity by preparing financial statements and special reports.

The purpose of financial accounting statements is mainly to show the financial position of a business at a particular point in time and to show how that business has performed over a specific period.

The three basic financial accounting statements that help achieve this function are:

- (1) **The trading account and the profit and loss account** (حساب الأرباح والخسائر) for the reporting period: an analysis of revenue and expenses of a business, exactly at the end of the year.
- (2) **A balance sheet** (الميزانية) for the business at the end of the reporting period: a statement showing the assets, liabilities and capital of a business.
- (3) **A cash flow statement** (كشف التدفق النقدي) for the reporting period: a statement showing how cash is generated and how it has been spent by the business.

Final statements consist of trading account and profit & loss account and balance sheet. All the amounts from trial balance are taken to prepare these statements.

- **Preparation of Final Accounts of Sole Proprietary Firm**

إعداد الحسابات الختامية للشركة ذات الملكية الفردية

(a) **Journal** سجل اليومية

1. '**Journal**' is derived from the French Word "Jour" which means a day. Journal therefore, means a daily record.

2. A Journal is a book of "Original Entry" or "Primary Entry".
3. First of all the business transactions are recorded in the 'Journal' and subsequently they are posted in the ledger.
4. To study "Book-Keeping", one must learn first how to journalise the business transactions.
5. To journalize the transaction means to record the two-fold effects of a transaction in terms of debit and credit. This has to be done by observing the rules of debit and credit.

• **Definition of Journal** تعريف اليومية

"A Journal is a book of original entry in which the transactions are recorded in a particular way by following the rules of debit and credit." (**Dictionary for Accountants written by E.L. Kohler 1983**).

اليومية هي سجل للقيود الأصلي الذي يتم فيه تسجيل المعاملات بطريقة معينة من خلال اتباع قواعد المحاسبة والدائنية.

Specimen (Format) of Journal:

Journal of.....

Date	Particulars	Ledger Folio (L.F.)	Debit	Credit
			IQD	IQD

(b) Ledger سجل الأستاذ

1. A ledger is the principle book of accounts.
2. All the entries made in the journal must be posted into the ledger.
3. The ledger is a book containing many ledger accounts. It is a group or set of accounts.
4. in other words, ledger is a book in which various accounts (personal, real and nominal) are opened.
5. Its source of information are the books of original entry called journals.
6. Usually, only one account is placed on each page of the ledger.
7. A businessman cannot get the information about the transactions from the Journal. For example, the amount receivable from the debtors, the amount

payable to creditors, total payments on any head of the expenditure etc. In order to get this information, a ledger has to be maintained.

8. While transferring the transactions from the journal to the ledger, the transactions are classified.

9. For each person, head of income, head of expenditure, asset, etc., separate accounts are opened in the ledger book.

سجل الأستاذ هو سجل يحتوي على العديد من الحسابات أو مجموعة من الحسابات. بمعنى آخر ، أن سجل الأستاذ هو سجل يتم فيه فتح حسابات مختلفة (شخصية وحقيقية واسمية) من واقع سجل القيد الأصلي.

Specimen (Format) of a Ledger :

Ledger							
Dr.		Name of the Account				Cr.	
Date	Particulars	Journal Folio	Amount	Date	Particulars	Journal Folio	Amount
			IQD				IQD

(c) Trial Balance ميزان المراجعة

1. "Trial Balance is a schedule or list of those debit and credit balances which are expected from various accounts in the ledger and balances of cash in hand and at bank as shown by the cash book are also included in it.

(R.N. Carter, www.slideshare.net- Published on Dec 9, 2014.)

2. "Trial Balance is a list or abstract of the balances or of total debits and total credits of the accounts in a ledger, the purpose being to determine the equality of the posted debits and credits and to establish a basic summary for financial statements". **(The Dictionary for Accounts by E. L. Kolher 1983).**

3. "The final list of balances totaled and combined is called Trial Balance".

"ميزان المراجعة هو جدول زمني أو قائمة بالأرصدة المدينة والدائنة التي تم توقعها من مختلف الحسابات في سجل الأستاذ كذلك يتضمن أرصدة النقد في الصندوق وفي البنك الظاهرة في سجل النقدية.

Specimen (Format) of Trial Balance :

Trial Balance (As on.....)

Sr. No.	Name of the Account	Ledger Folio	Debit Balances IQD	Credit Balances IQD

(d) Trading Account حساب المتاجرة

1. After preparing a Trial Balance at the end of an accounting period, the next step is to prepare the 'Trading Account'.
2. Trading Account is one of the financial statement which shows the result of buying and selling of goods and or services during an accounting period.
3. Trading Account is a flow statement and not a static statement. It is prepared for a particular accounting period and not at a particular point of time.
4. Trading Account is prepared to know the gross profit or gross loss during the accounting period.
5. The basis for the preparation of Trading account is the matching of selling prices of goods and services with the cost of the goods sold and services rendered.

$$\text{Cost of goods sold} = \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses on purchases} - \text{Closing Stock}$$

حساب المتاجرة هو أحد القوائم المالية التي تظهر نتيجة شراء وبيع السلع أو الخدمات خلال فترة محاسبية. ويتم إعداد حساب المتاجرة لمعرفة إجمالي الربح أو الخسارة الإجمالية خلال الفترة المحاسبية.

Specimen of Trading Account:
Dr.

Trading A/c

Cr.

Particulars	IQD	Particulars	IQD
To Opening Stock		By Sales	
To Wages		Less : Return Inward	
To Purchases		By Closing Stock By Gross	
Less : Return Outward		Loss c/d	
To Carriage Inward			
To Motive Power			
To Factory' Expenses (★)			
To Freight			
To Gross Profit c/d			
	xxx		xxx

[(★) Factory Expenses : It includes factory lighting, factory rent, rates, factory repairs etc.]

(e) Profit and Loss Account حساب الأرباح والخسائر

1. Profit and Loss Account is an account in the books of an organization to which incomes and gains are credited and expenses and losses are debited, so as to show the net profit or loss over a given period.
2. The Profit and Loss Account has the unique characteristic feature of enabling the organization to judge the performance of the factors of production as well as enabling it to take note of the expenses for future of the organization.
3. The Profit and Loss Account enables the organization to make provision for expenses such as bad debts etc.

حساب الربح والخسارة هو حساب في سجلات المنشأة التي يتم فيها قيد الأرباح والمكاسب والمصروفات والخسائر، وذلك لإظهار صافي الربح أو الخسارة خلال فترة معينة.

Specimen of Profit and Loss Account:

Dr.		Profit and Loss A/C		Cr.	
Particulars		IQD	Particulars		IQD
To Gross Loss b/d			By Gross Profit b/d		
To Salaries			By Sundry Receipts		
To Director's Fees			By Commission (Received)		
To Audit Fees			By Transfer Fees (Received)		
To Bank charges			By Interest on Investment in government Securities		
To Bad Debts			By Interest on Investment (Received)		
To R.B.D.D.			By Net Loss c/d		
To Commission					
To Preliminary Expenses					
To Advertisement					
To Printing & Stationery					
To Insurance					
To Debenture Interest					
To Bank Charges					
To Provident Fund Contribution					
To Provision for Taxation					
To Depreciation					
To Interest on Loan					
To Carriage Outward					
To Postage					
To Net Profit c/d					
		XXX			XXX

(f) Balance Sheet الميزانية العمومية

1. A Balance Sheet is one important financial statement.
2. A Balance Sheet is a statement of assets and liabilities of an enterprise at a given date.
3. It is called as Balance Sheet because it is a sheet of balances of those ledger accounts which have not been closed till the preparation of the Trading and Profit and Loss Account.
4. A Balance Sheet is a list of assets and claims of a business at some specific point of time and is prepared from an adjusted Trial Balance.
5. A Balance Sheet shows the financial position of a business by detailing the sources of funds and the utilization of these funds.

6. A Balance Sheet shows the assets and liabilities grouped, properly classified and arranged in a specific manner.

الميزانية العمومية هي قائمة بالموجودات والمطلوبات الخاصة بالأعمال التجارية في وقت محدد من الأوقات، ويتم إعدادها من ميزان مراجعة معدل. وتوضح الميزانية العمومية المركز المالي لمنشأة تجارية عن طريق تفاصيل مصادر التمويل واستخدام هذه الأموال.

Specimen of Balance Sheet:

Balance Sheet (For the Year Ended)

Liabilities	IQD	Assets	IQD
Capital Add : Net Profit Less : Net Loss Less : Drawings Sundry Creditors Bills Payable Loans Bank Overdraft Outstanding Expenses		Goodwill Land and Building Plant and Machinery Furniture Investments Cash in Hand Cash at Bank Bills Receivables Sundry Debtors Prepaid Expenses Stock in Trade	
Total	xxx	Total	xxx