

WORKSHOP ON FINANCIAL MANAGEMENT

I – BASICS OF ACCOUNTING

Financial accounting is the recording of financial transactions for current and future reference of the financial position.

It has three parts

1. Recording of transactions in books of Account
2. Extracting Reports for management information and guidance on the financial position
3. Analysis of cost and Income of individual operations to find out the profitable operation for the purpose of decision making and future plan of action.

Recording of Transaction

It is the work of the Accountant who records all the receipts & payments and all the Receivables and payables during the course of business and for a specific period of time.

This involves maintaining of Account books such as

1. Day books

- a. Cash book
- b. Bank book
- c. Purchase book
- d. Sales Book

2. Ledgers

- a. General Ledger
- b. Purchase or Creditors Ledger
- c. Sales or Debtors Ledger

3. Other Books

- a. Unpaid Register
- b. Cheque/DD register
- c. Patient due Register

JOURNAL

A journal entry is prepared to show -

-the account/accounts to which amount/amounts are to be debited and

-the account/accounts to which amount/amounts are to be credited equaling to the debit/debits.

DAY BOOKS

Same natured regular transactions (like Sales, purchases, cash payments, Receipts-Bank payments & Receipts) which have repetition in nature on the daily routine are recorded in a Register having one column for the general nature(Sales, purchases etc) and columns for the different credits(for purchases) or debits(for sales). The total of the general column will be taken to the respective head of Account(Sales, purchases)

And all other individual credits or debits will be taken(entered) to the respective supplier/buyer accounts.

This is nothing but simplifying the journal to be passed individually for each & every financial transactions by passing in a consolidated manner through use of Day books.

DOUBLE ENTRY BOOK-KEEPING

The word **double** is used because for each entry of debit there must be a corresponding credit. By this one can vouch for the correctness of all entries passed over a period of time by drawing a list of various account balances where the total of debits tallies to the total of credits.

The formula for passing journal entries are grouped under three of the following

ACCOUNTS

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PERSONAL IMPERSONAL

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REAL NOMINAL

PERSONAL

1. Rule for Personal Account

- a. Debit the Receiver
- b. Credit the giver

Example- names of Individual, firm, company

IMPERSONAL

2. Rule for Real Account

- a. Debit what comes in
- b. Credit what goes out

Example-In the name or nature of Mercantile Material (ie.purchase-Sale) –Assets etc.

3. Rule for Nominal Account

- a. Debit all expenses and losses
- b. Credit all incomes and gains

Example-Items of incomes and expense heads such as consulting Fee, surgery charges, medicine expenses, Repairs& maintenance expense etc.

Based on the entries made on everyday transactions for any given date (ie. End of month, quarter, half year or annual) a Trial balance (List of account balances) with debit or credit values will be extracted from the ledger. This will be tallied and out of this all all management Reports are prepared as to the requirements of the management.