FINANCIAL REPORTS

ITS NEED AND IMPORTANCE
ACCOUNTING SYSTEM

- It is a source of financial Information
- It is a guide to the management
- It gives financial implication of operations
- It may be defined as
  - A process of identifying,
  - Measuring, and communicating
  - Economic information
NEED OF ACCOUNTING SYSTEM

- To make decisions
- To control manpower and material resources
- To report on custodianship of resources
- To facilitate social functions and controls

By management
- Employees/Raw material
- Managers/Administrators
- Customers/employees/Gov. / Investors
To provide information
Accounting has to perform

- Accumulate information
- Measuring the information
- Communicating the information

- Recording of information
- Analysis of economic events
- Management information service
Users of Accounting Information

- Owners/proprietors
- Potential investors
- Creditors
- Government
- Employees/Trade unions
- Customers
- Managers
FINANCIAL REPORTS

- Major financial statements
  - Income & Expenditure Account
  - Balance Sheet
  - Cash/fund flow statements
OBJECTIVES OF FINANCIAL REPORTS

✓ To provide reliable financial information
✓ To provide changes in net resources
✓ To estimate the earning potential
✓ To report on changes of economic resources
✓ Other informations needed to users
BALANCE SHEET

- Have two parts of information
  - Assets
  - Liabilities
ASSETS

- Fixed Assets less Depreciation
- Investments
- Loans & Advances
- Current Assets
- Non-current assets

LIABILITIES

- Share capital/equity
- Reserves & Surplus
- Loans - Secured/unsecured
- Current Liabilities
- Provisions
FUNCTIONS OF BALANCE SHEET

- Balance sheet reveals
- TA-TOL=Equity
- Net worth=TA-ITA-LTL-CL
- Capital employed=TA-ITA-CL
- It also measures
  - Firms resources
  - Firms liquidity
  - Firms solvency
This report reveals the earning capacity of the firm

- **REVENUES**
  - By sale of products
  - By rendering services
  - By return on investments
  - By sale of Assets
REVENUE CLASSIFICATION

- OPERATING
  - SALE OF PRODUCTS
  - SERVICE CHARGES

- NON-OPERATING
  - SALE PROFIT ON ASSETS
  - INTEREST ON INVESTMENTS
  - COURSE FEE
  - STD CHARGES
  - MISCELLANEOUS
This statement is prepared in Manufacturing and trading Organisations. Where accrual basis of accounting is followed. And dealing with goods manufacturing and trading.
Income and expenditure account

- Applicable to organisations other than in material manufacture and/or Trading
- Applicable to Service organisations - where accrual basis of accounting followed
RECEIPTS & PAYMENTS ACCOUNT

- Applicable to Societies, Trusts & Associations
- cash basis of accounting followed
<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Expired cost</td>
<td>Revenue expense</td>
</tr>
<tr>
<td>Unexpired cost</td>
<td>Capital Expense</td>
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</tbody>
</table>
REVENUE EXPENDITURE

- Operating Expenditure
- Non-Operating expenditure
Revenue Reports

- Gives informations on
- On Cost of production-By cost reports
- Gross profit
- Operating profit
- Net profit
THANK YOU