

# 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 FINANACIAL 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 - LIABILITIES

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

PROFIT OR LOSS ACCOUNT  
INCOME AND EXPENDITURE ACCOUNT  
RECEIPTS AND PAYMENTS ACCOUNT

- 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

# PROFIT OR LOSS ACCOUNT

- 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

# EXPENSE

- Expired cost - Revenue expense
- Unexpired cost - Capital Expense

# 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*