

# Basic Concepts: Accounting, Scope, Cycle, Equation, Principles, Assumptions

Presented by:

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# Basic Concepts of Accounting

## **Accounting:**

Accounting is the process of systematically recording, summarizing, analyzing and reporting financial transaction & information of an organization.

## **Scope of Accounting:**

Accounting is a fundamental component of business and finance, and its scope extends to various fields, including financial accounting (external reporting), managerial accounting (internal decision-making), tax accounting (compliance with tax laws), and auditing (independent verification). It plays a vital role in the functioning of organizations and helps stakeholders assess their financial performance and make informed decisions.

# Contnd...

## **Recording Transactions:**

Documenting all financial transactions, such as sales, purchases, expenses, and investments, in a systematic and organized manner.

## **Summarizing Data:**

Aggregating and categorizing financial data into financial statements, like the income statement, balance sheet, and cash flow statement, to provide a clear overview of the organization's financial position and performance.

## **Analysis:**

Examining financial data to assess the financial health and efficiency of an entity. This involves ratio analysis, trend analysis, and other techniques to make informed decisions.

## **Reporting:**

Generating financial reports and statements that are used by various stakeholders, including investors, creditors, management, and government authorities, to make informed decisions.

# Contnd...

## **Compliance:**

Ensuring adherence to relevant accounting standards, regulations, and taxation requirements to maintain transparency and legality in financial reporting.

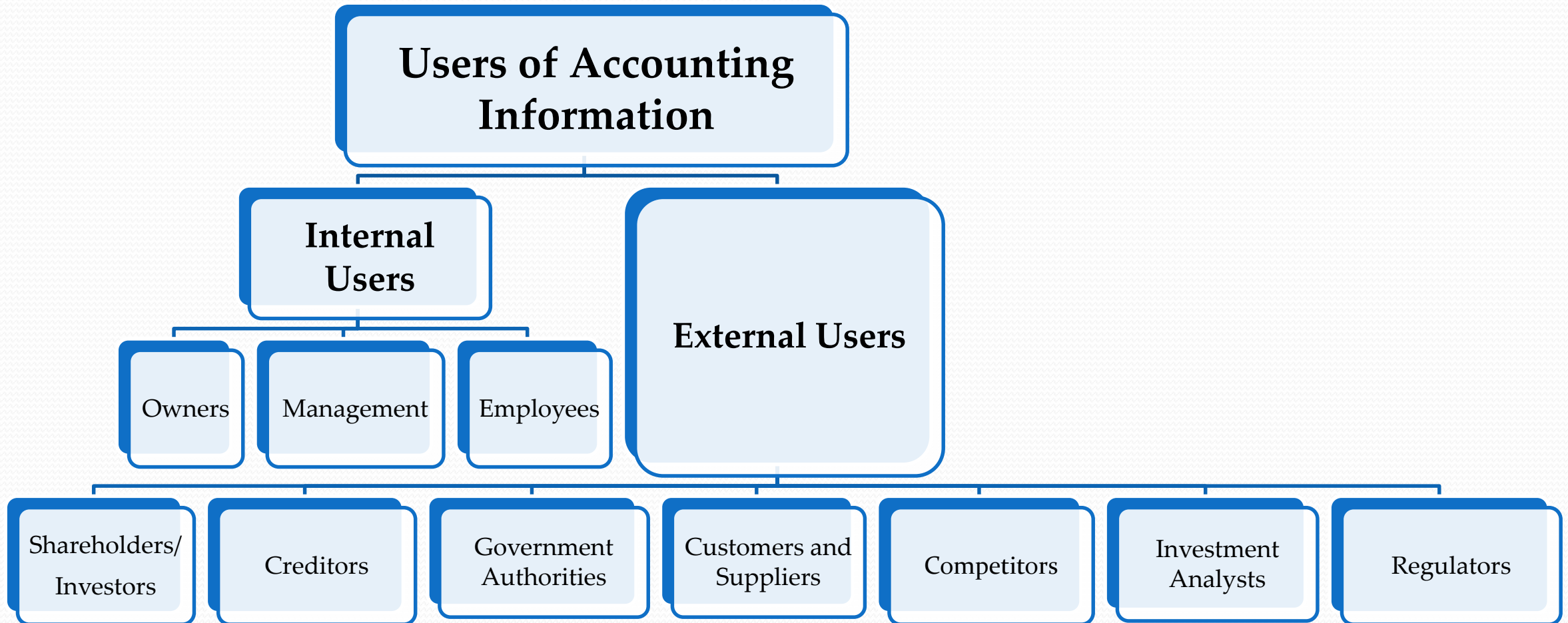
## **Decision Making:**

Providing crucial financial information to help stakeholders make informed decisions about resource allocation, investment, and strategic planning.

## **Auditing:**

Conducting audits to verify the accuracy and reliability of financial information and ensure compliance with accounting principles and standards.

# Users of Accounting Information



# Role/Importance of Accounting

**Accounting is essential to managing a business** because it makes it easier to keep track of income and expenses, ensures legal compliance, and gives investors, management, and the government access to quantitative financial data that you can use to make decisions. Here are a few of the factors supporting its significance for your company, no matter how big or small:

1.

- **Evaluates business performance**

2.

- **Creates a budget and plans**

3.

- **Accounting role in a company's growth**

4.

- **Monitors cash flow**

5.

- **Ensures statutory compliance**

6.

- **Fraud prevention and detection**

7.

- **Improved payment cycles**

# Accounting Principles

- Accounting principles, also known as Generally Accepted Accounting Principles (GAAP), are a set of standardized guidelines and rules that govern the preparation, presentation, and reporting of financial statements for businesses and other organizations. GAAP ensures consistency, transparency, and comparability in financial reporting. Here are some key accounting principles:
- **Prudence (Conservatism):** This principle suggests that when there are multiple acceptable accounting methods, the one that results in lower profits and lower asset values should be chosen. It encourages a more cautious approach to financial reporting.
- **Historical Cost:** Assets and liabilities should initially be recorded at their historical cost, which is the original cost incurred to acquire them. While certain assets can be revalued over time, historical cost remains the foundation for many accounting valuations.

## Contnd...

- **Fair Value Principle:** It states that assets and liabilities should be presented at fair value
- **Accrual Basis:** Under this principle, revenues and expenses are recognized when they are earned or incurred, regardless of when the cash is received or paid.
- **Consistency:** Consistency requires that an organization uses the same accounting methods and procedures from one period to another.
- **Materiality:** Materiality states that financial information should be presented in a way that highlights important or material items, ensuring that users can make informed decisions based on relevant information.



# Basic Accounting Assumptions

## Basic Accounting Assumptions

1.	2.	3.	4.
<b>Business/Economic Entity Assumption:</b>	<b>Going Concern Assumption:</b>	<b>Time Period Assumption:</b>	<b>Monetary Unit Assumption:</b>
This assumption states that the business entity is separate from its owners and other businesses	The going concern assumption assumes that a business will continue to operate indefinitely unless there is evidence to the contrary	The time period assumption divides the life of a business into specific time periods, usually fiscal years or quarters, for financial reporting purposes	This principle assumes that all transactions are recorded and reported in a common monetary unit, such as the local currency

# Accrual Basis Accounting

- Under the accrual basis, companies record transactions that change a company's financial statements in the periods in which the events occur.
- Using the accrual basis to determine net income means companies recognize revenues when they perform services (rather than they receive cash)
- It also means recognizing expenses when it incurred (rather than when they pay cash)

# Cash Basis Accounting

- An alternative to the accrual basis is the cash basis.
- Under cash basis accounting, companies record revenue at the time they receive cash. They record an expense at the time they pay out cash.
- The cash basis seems appealing due to its simplicity, but it often produces misleading financial statements.
- The cash basis may not recognize revenue in the period that a performance obligation is satisfied
- ❖ Accrual basis accounting is required by GAAP. Individuals and small business however do use cash basis accounting. Medium & Large companies use Accrual basis accounting

# Principle of Revenue Recognition

- When a company agrees to perform a service or sell a product to a customer, it has a performance obligation. When the company meets this performance , it recognizes revenue.
- The revenue recognition principle requires that companies recognize revenue in the accounting period in which the performance obligation is satisfied.

# Five steps of Revenue Recognition

Revenue Recognition results from a five step process.

1. Identify the contract with customers



```
graph TD; A[1. Identify the contract with customers] --> B[2. Identify the separate performance obligation in the contract]; B --> C[3. Determine the transaction price]; C --> D[4. Allocation the transaction price to the separate performance obligation]; D --> E[5. Recognize revenue when each performance obligation is satisfied];
```

2. Identify the separate performance obligation in the contract

3. Determine the transaction price

4. Allocation the transaction price to the separate performance obligation

5. Recognize revenue when each performance obligation is satisfied

# The Accounting Equation

The Accounting Equation, also called *balance sheet equation* or *fundamental accounting equation* is a mathematical formula in financial accounting based on the double-entry bookkeeping and accounting system that proves Total Assets equals Total Liabilities plus Total Equity from a company's balance sheet. For each transaction, the total debits equal the total credits. It can be expressed as furthermore:

$$\text{Assets} = \text{Liabilities} + \text{Equity/Owner's Equity}$$

# Contd...

Where,

Owner's Equity = Contributed Capital + Retained Earnings

Retained Earnings = Net Income – Dividends

Net Income = Revenue – Expenses

Thus, the equation can be re-written as follows:

**Assets = Liabilities + Contributed Capital + Revenue – Expenses – Dividends**

**Simply,**

$$\mathbf{A = L + C + R - E - D}$$

**Or,**

$$\mathbf{\underline{A + E + D} = \underline{L + C + R}}$$

$$\mathbf{Dr. = Cr.}$$

Thus, when Assets, Expenses & Dividends (Increase) = Dr. and (Decrease) = Cr.

and when Liabilities, Capital & Revenue (Increase) = Cr. and (Decrease) = Dr.

# Accounts and its types:

**Accounts is formal record of a particular type of transaction expressed in money or other unit of measurement and kept in a Ledger.**

Traditionally, accounts were divided into two classes

**1. Personal Accounts:**

It can be divided into three Sub-Accounts.

- a. Natural persons**
- b. Artificial Persons**
- c. Representative Persons**

**2. Impersonal Accounts:**

It can be divided into two Sub-Accounts

- a. Real Accounts**
- b. Nominal Accounts**



# Rules for Identifying Debit & Credit:

## A. Golden Rules of Accounting:

Sl. No.	Name of the Account	Debit	Credit
01	Personal Account	Receiver the value	Giver the value
02	Real Account	What comes in?	What goes out?
03	Nominal Account	Expenses /Loss	Income/Gain

## B. Modern/Alternative Approach:

Sl. No.	Name of the Account	Debit	Credit	Normal Balance
01	Assets Account	Increase (+)	Decrease (-)	Debit
02	Liability Account / Owners' Equity A/C	Decrease (-)	Increase (+)	Credit
03	Revenue Account	Decrease (-)	Increase (+)	Credit
04	Expense Account	Increase (+)	Decrease (-)	Debit

# Impact of transactions on Accounting Equation

- Selected transactions for ABC company are listed below. List the numbers of the transactions and describe the effect of each transaction on assets, liabilities and owner's equity
  1. Paid monthly rent
    - ✓ **A Decrease in Assets & Decrease in owners equity**
  2. Purchased equipment on account
    - ✓ **An increase in Assets and an increase in Liabilities**
  3. Made cash investment to start business
    - ✓ **An Increase in Assets & an Increase in owners equity**

# Contnd

4. Billed customers for services performed
  - ✓ **An Increase in Assets & an Increase in owners equity**
  
5. Withdrew cash for owner's personal uses
  - ✓ **A Decrease in Assets & Decrease in owners equity**
  
6. Received cash from customers billed in (4)
  - ✓ **An increase in Assets & A Decrease in Assets**

## Contnd

7. Incurred advertising expenses on account  
✓ **An increase in Liabilities & Decrease in owners equity**
  
8. Purchased additional equipment for cash  
✓ **An increase in Assets & A Decrease in Assets**
  
9. Received cash from customers when services performed  
✓ **An Increase in Assets & an Increase in owners equity**



- **Tabular Analysis**

## May – 2023 (Question no. 5c)

Show the effect of the following transaction in an accounting equation creating a tabular summary:

- i) Investment of the owner TK.100,000 in the business.
- ii) Purchase a furniture from Hasan Traders for TK.70,000 on credit.
- iii) Providing consultancy services to the customer for TK.50,000 in cash.
- iv) Payment made to Hasan Traders TK.70,000.
- v) Provided consultancy services to Mr. Kibria TK.40,000.
- vi) Paid TK.20,000 as rent for the period.
- vii) Cash received from Mr. Kibria TK.20,000.

## Contnd....

- viii) Provided services to Mr. Zakaria of TK.80,000 and out of which TK.30,000 was in cash.
- ix) The owner paid TK.20,000 as a tuition fees for his child from the business.



# Solution

## Tabular Analysis

Date /Sl.	Particulars	Dr.					Cr.			
		Assets					Liabilities	Owners' Equity		
		Cash	A/c. Receivable	Furniture	Expense	Total	A/c. Payable	Capital	Revenue	Total
i	Own Investment in business	100,000				100,000		100,000		100,000
ii	Purchase of furniture on credit			70,000		70,000	70,000			70,000
iii	Provided consultancy services in cash	50,000				50,000			50,000	50,000
iv	Cash payment to accounts payable	(70,000)				(70,000)	(70,000)			(70,000)
v	Provided consultancy services on credit		40,000			40,000			40,000	40,000
vi	Cash payment of rent	(20,000)			20,000	-				-
vii	Cash received from accounts receivable	20,000	(20,000)			-				-
viii	Provided consultancy services on credit & in cash	30,000	50,000			80,000			80,000	80,000
ix	Cash payment of child tuition fees from business	(20,000)				(20,000)		(20,000)		(20,000)
	<b>Total</b>	<b>90,000</b>	<b>70,000</b>	<b>70,000</b>	<b>20,000</b>	<b><u>250,000</u></b>	<b>-</b>	<b>80,000</b>	<b>170,000</b>	<b><u>250,000</u></b>

# The Accounting Cycle

The accounting cycle is a multistep process used by businesses to create an accurate record of their financial position, as summarized on their financial statements. During the cycle's various stages, companies record their financial transactions in a journal, transfer the details into a general ledger, analyze the entries and make sure the books are balanced and error-free before generating financial statements and closing the books for the period.

The main purpose of the accounting cycle is to keep track of all financial activities that occur during a specific accounting period, be it monthly, quarterly or annually.

# The Accounting Cycle - Steps

Eight steps to the Accounting Cycle:

1. Identify Transactions
2. Record Journal Entries
3. Posting Ledger Entries
4. Unadjusted Trial Balance
5. Adjusted Entries
6. Adjusted trial Balance
7. Preparing Financial Statements
8. Closing Books



Thank You All

Any Question?

# Journal, Ledger and Trial Balance

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# Adjusting Journal

Adjusting entries are accounting journal entries made at the end of an accounting period to ensure that a company's financial statements accurately reflect its financial position and performance.

### Example of Adjusting Entry:

Tk. 12,000/- was paid for 1 year insurance coverage began on August 01, 2023.

Post the adjusting entry as on 31.08.2023

Date	Accounts and Explanation	L.F.	Debit	Credit
31.08.2023	Insurance Expense	Dr.	1,000	
	Prepaid Insurance	Cr.		1,000
	(To record insurance expired)			

# Types of Adjusting Entries:

## Deferrals

1. Prepaid Expenses  
Expenses paid in cash and recorded as assets before they are used
2. Unearned Revenues:  
Cash received and recorded as a liability before services are performed

## Accruals

1. Accrual Expenses:  
Expenses incurred but not yet paid in cash or recorded
2. Accrued Revenues:  
Revenue for services performed but not yet received in cash or recorded



# Necessary for Adjusting Entries

- These entries are necessary because the accrual accounting method, which is widely used in financial reporting, recognizes revenue and expenses when they are earned or incurred, not necessarily when cash changes hands.
- Adjusting entries are essential because they ensure that the financial statements accurately portray a company's financial condition and operating results. Without these adjustments, a company's financial statements may not provide a true picture of its profitability and financial health. Adjusting entries are typically made before the preparation of the company's financial statements, such as the income statement and balance sheet.

# November - 2022 (Question No. 2b)

**Journalize the adjusting entry needed on 30 June 2021 the end of the current accounting period for each of the following independent cases affecting ABC Constructing Company :**

i.	The Company pays its workers each Thursday their weekly wages. The amount of the wages is Tk. 5,200/- for a five day week and the daily wages amounts are equal. The current accounting period ends on Wednesday (June 30, 2021)
ii.	The company has invested some money, during the current year, the company has earned profit revenue for Tk. 1,500/- that will be received next year.
iii.	The company received Tk. 62,000/- cash from a client, which was recorded as Unearned Service Revenue. The accounts of the company estimates that the business has earned one quarter of the total amount during current year.
iv.	Depreciation on Office Furniture for the current year is Tk. 2,100/-
v.	The beginning balance of supplies was Tk. 3,800/-. During the year the company purchased supplies costing Tk. 8,500/- and at June 30, 2021 the inventory of supplies on hand is Tk. 2,700/-.

## Solution

### ABC Constructing Company Adjusting Entries

Date/Sl. No.	Accounts and Explanation	L.F.	Debit	Credit
i.	Wages Expense	Dr.	4,160	
	Wages Payable	Cr.		4,160
	(To record accrued wages)			
ii.	Profit Receivable	Dr.	1,500	
	Profit Revenue	Cr.		1,500
	(To record accrued profit on investment)			
iii.	Unearned Service Revenue	Dr.	15,500	
	Service Revenue	Cr.		15,500
	(To record revenue for service earned)			
iv.	Depreciation Expense	Dr.	2,100	
	Accumulated Depreciation	Cr.		2,100
	(To record depreciation incurred )			
v.	Supplies Expense	Dr.	9,600	
	Supplies	Cr.		9,600
	(To record supplies used)			

# October- 2019 (Question No. 4c)

Before preparing financial statements of M/S Rising Company for the month, following adjustments were noted on December 31, 2018:

1)	Three months rent paid on November 1, 2018 @ Tk. 8,000/- per month.
2)	Unearned revenue was due total Tk. 55,000/-
3)	Depreciation on equipment for the month Tk. 2,500/-
4)	Expired insurance for the month Tk. 3,000/-
5)	Office supplies used during December 2018 Tk. 9,000/-
6)	Service provided but unbilled on December 31, 2018 were Tk. 60,000/-
7)	Profit on investment accrued at December 31, 2018 Tk. 15,000/-
8)	Accrued salaries on December 31, 2018 were Tk. 25,000/-

## Required:

Make the adjusting entries at the end of December 2018 and

# Solution

## M/S Rising Company Adjusting Entries

Date/Sl. No.	Accounts and Explanation	L.F.	Debit	Credit
1)	Rent Expense Dr.		8,000	
	Prepaid Rent Cr.			8,000
	(To record rent incurred )			
2)	Unearned Service Revenue Dr.		55,000	
	Service Revenue Cr.			55,000
	(To record revenue for service earned)			
3)	Depreciation Expense Dr.		2,500	
	Accumulated Depreciation Cr.			2,500
	(To record depreciation incurred on equipment)			
4)	Insurance Expense Dr.		3,000	
	Prepaid Insurance Cr.			3,000
	(To record insurance expired)			
5)	Office Supplies Expense Dr.		9,000	
	Office Supplies Cr.			9,000
	(To record supplies used)			

# Adjusting Entries

## Contnd...

Date	Accounts and Explanation	L.F.	Debit	Credit
6)	Accounts Receivable <span style="float: right;">Dr.</span>		60,000	
	Service Revenue <span style="float: right;">Cr.</span> (To record revenue for service performed)			60,000
7)	Profit Receivable <span style="float: right;">Dr.</span>		15,000	
	Profit Revenue <span style="float: right;">Cr.</span> (To record accrued profit on investment)			15,000
8)	Salaries Expense <span style="float: right;">Dr.</span>		25,000	
	Salaries Payable <span style="float: right;">Cr.</span> (To record accrued wages)			25,000

# May - 2023 (Question No. 4c)

The following transactions were made by Mr. Rifat, Owner of M/s Rifat Enterprise during the month of March 2023:

- March-1 The owner invest Tk. 2,50,000/- in cash and Furniture Tk. 90,000/-
- March-5 Appointment a manager Tk. 30,000/- per month
- March-10 Purchase of goods Tk. 1,20,000/- by cash and Tk. 30,000/- on credit
- March-16 Sales of goods to Mr. Nihal Tk. 2,00,000/- and received cash Tk. 1,50,000/-
- March-20 Purchase Furniture Tk. 20,000/- by cash
- March-23 Received cash Tk. 40,000/- from Mr. Nihal
- March-30 Paid monthly expenses: Office Rent Tk. 10,000/-, Manager Salary Tk. 30,000/-

**Required:** i) Pass the Journal entries with narration.  
ii) Transfer the entries in proper Ledger Accounts and  
iii) Prepare Trial Balance

## Solution

### M/s Rifat Enterprise Journal Entries

Date	Accounts and Explanation	L.F.	Debit	Credit
March-1, 2023	Cash Account <span style="float: right;">Dr.</span>		250,000	
	Furniture Account <span style="float: right;">Dr.</span>		90,000	
	Capital Account <span style="float: right;">Cr.</span>			340,000
	(As owner invested in cash and furniture)			
March-5, 2023	Not a financial transaction			
	(As appointing manager isn't a financial transaction)			
March-10, 2023	Purchase Account <span style="float: right;">Dr.</span>		150,000	
	Cash Account <span style="float: right;">Cr.</span>			120,000
	Accounts Payable Account <span style="float: right;">Cr.</span>			30,000
	(As goods purchased in cash and credit)			
March-16, 2023	Accounts Receivable Account (Mr. Nihal) <span style="float: right;">Dr.</span>		50,000	
	Cash Account <span style="float: right;">Dr.</span>		150,000	
	Sales Account <span style="float: right;">Cr.</span>			200,000
	(As goods sold in cash and credit)			



# Journal Entries

Contnd...

Date	Accounts and Explanation	L.F.	Debit	Credit
March-20	Furniture Account Dr.		20,000	
	Cash Account Cr. (As furniture purchased in cash)			20,000
March-23	Cash Account Dr.		40,000	
	Accounts Receivable Account (Mr. Nihal) Cr. (As due received in cash)			40,000
March-30	Office Rent Account Dr.		10,000	
	Salary Account Dr.		30,000	
	Cash Account Cr. (As expenses occurred in cash)			40,000

# Solution

## M/s Rifat Enterprise General Ledger

Cash Account					Account No. 1
Date	Explanation	J.F.	Debit	Credit	Balance
March-1	Capital Account		250,000		250,000
March-10	Purchase Account			120,000	130,000
March-16	Sales Account		150,000		280,000
March-20	Furniture Account			20,000	260,000
March-23	Accounts Receivable Account (Mr. Nihal)		40,000		300,000
March-30	Office Rent Account			10,000	290,000
March-30	Salary Account			30,000	<u>260,000</u>

# General Ledger Contnd...

Furniture Account					Account No. 2
Date	Explanation	J.F.	Debit	Credit	Balance
March-1	Capital Account		90,000		90,000
March-20	Cash Account		20,000		<u>110,000</u>

Capital Account					Account No. 3
Date	Explanation	J.F.	Debit	Credit	Balance
March-1	Cash Account			250,000	250,000
March-1	Furniture Account			90,000	<u>340,000</u>

## General Ledger Contnd...

<b>Purchase Account</b>					<b>Account No. 4</b>	
<b>Date</b>	<b>Explanation</b>	<b>J.F.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
March-10	Cash Account		120,000		120,000	
March-10	Accounts Payable Account		30,000		<u>150,000</u>	

<b>Accounts Payable Account</b>					<b>Account No. 5</b>	
<b>Date</b>	<b>Explanation</b>	<b>J.F.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
March-10	Purchase Account			30,000	<u>30,000</u>	

<b>Accounts Receivable Account (Mr. Nihal)</b>					<b>Account No. 6</b>	
<b>Date</b>	<b>Explanation</b>	<b>J.F.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
March-16	Sales Account		50,000		50,000	
March-23	Cash Account			40,000	<u>10,000</u>	

## General Ledger Contnd...

<b>Sales Account</b>					<b>Account No. 7</b>	
<b>Date</b>	<b>Explanation</b>	<b>J.F.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
March-16	Cash Account			150,000	150,000	
March-16	Accounts Receivable Account (Mr. Nihal)			50,000	<u>200,000</u>	

<b>Office Rent Account</b>					<b>Account No. 8</b>	
<b>Date</b>	<b>Explanation</b>	<b>J.F.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
March-30	Cash Account		10,000		<u>10,000</u>	

<b>Salary Account</b>					<b>Account No. 9</b>	
<b>Date</b>	<b>Explanation</b>	<b>J.F.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
March-30	Cash Account		30,000		<u>30,000</u>	

## Solution

M/s Rifat Enterprise  
Trial Balance  
As on March 31, 2023

Particulars	Debit (Tk.)	Credit (Tk.)
Cash	260,000	
Furniture	110,000	
Capital		340,000
Purchase	150,000	
Accounts Payable		30,000
Accounts Receivable	10,000	
Sales		200,000
Office Rent	10,000	
Salary	30,000	
<b>Total</b>	<b>570,000</b>	<b>570,000</b>

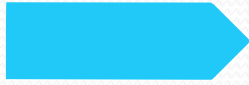
# October – 2021

## (Question No. 3)

Mr. Ahmad Abdullah started his consultancy firm on August 1, 2021 with cash investment of Tk.300,000. Following events and transactions occurred during the month

<b>August-2</b>	<b>: Hired a secretary at salary of Tk.20,000 per month.</b>
<b>August-3</b>	: Purchased supplies of Tk.12,000 on account.
<b>August-8</b>	: Paid office rent of Tk.25,000 cash for the month.
<b>August-11</b>	: Completed a tax assignment and billed the client Tk.15,000 for the services provided.
<b>August-12</b>	: Received Tk.12,000 advance as management consulting engagement.
<b>August-17</b>	: Received Tk.5000 cash for the service provided on August 11, 2021.
<b>August-31</b>	: Paid secretary Tk.20,000 as salary for the month.
<b>August-31</b>	: Paid 50% of the due for purchasing of supplies on August 3, 2021.

# Contd....



## **Required:**

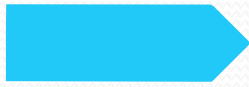
- i) Journalize the transactions;**
- ii) Post to the ledger accounts and**
- iii) Prepare a trial balance as of August 31,2021.**



# Solution

General Journal					
Date		Accounts and Explanation	L.F.	Debit	Credit
2021 August	01	Cash Account                      ...Dr. Capital Account                ...Cr.		3,00,000	3,00,000
	02	Not a financial transaction			
	03	Purchase Account                Dr. Accounts Payable             Cr.		12,000	12,000
	08	Office Rent                        Dr. Cash Account                  Cr.		25,000	25,000
	11	Bills Receivable                 ...Dr. Service Revenue               ...Cr.		15,000	15,000
	12	Cash Account                     ...Dr. Prepaid Income                ...Cr.		12,000	12,000
	17	Cash Account                     Dr. Bills Receivable               Cr.		5,000	5,000
	31	Salary Expenses                 Dr. Cash Account                  Cr.		20,000	20,000
	31	Accounts Payable                Dr. Cash Account                  Cr.		6,000	6,000

# General Ledger

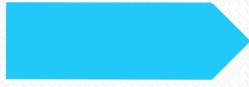


Cash			Account No. 1		
Date	Explanation	Folio	Debit	Credit	Balance
2021 August	01 Capital		3,00,000		3,00,000
	08 Office Rent			25,000	2,75,000
	12 Prepaid Income		12,000		2,87,000
	17 Bills Receivable		5,000		2,92,000
	31 Salary Expenses			20,000	2,72,000
	31 Accounts Payable			6,000	2,66,000
	31 Balance				2,66,000

# Bills Receivable

Date		Explanation Balance	Folio	Debit	Credit
2021 August	11	Service Revenue	15,000		15,000
	17	Cash Account		5,000	10,000
	31	Balance			10,000

# Office Rent



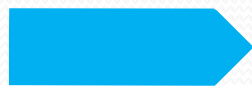
Date	Explanation	Folio	Debit	Credit	Balance
2021 August	08 Cash Account		25,000		25,000
	31 Balance				25,000

# Accounts Payable



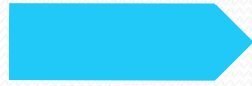
Date	Explanation	Folio	Debit	Credit	Balance
2021 August	03 Purchase Account			12,000	12,000
	31 Cash Account		6,000		6,000
	31 Balance				6,000

# Capital



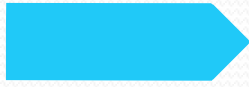
Date	Explanation	Folio	Debit	Credit	Balance
2021 August	01 Cash			3,00,000	3,00,000
	31 Balance				3,00,000

# Purchase Account



Date	Explanation	Folio	Debit	Credit	Balance
2021 August	03 Accounts Payable		12,000		12,000
	31 Balance				12,000

# Service Revenue



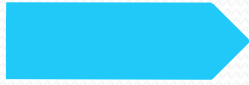
Date	Explanation	Foli	Debit	Credit	Balance
		0			
2021	<b>11 Bills Receivable</b>			<b>15,000</b>	<b>15,000</b>
August					
31	Balance				15,000



# Salary Account

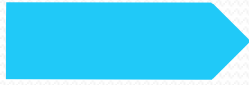
Date	Explanation	Folio	Debit	Credit	Balance
2021 August	31 Cash		20,000		20,000
	31 Balance				20,000

# Prepaid Income



Date	Explanation	Folio	Debit	Credit	Balance
2021 August	12 Cash Account			12,000	12,000
	31 Balance				12,000

# Prepaid Income



Date		Explanation	Folio	Debit	Credit	Balance
2021 August	12	Cash Account			12,000	12,000
	31	Balance				12,000

# Trial Balance

As at 31<sup>st</sup>August 2021

Sl. No.	Accounts	Debit (Tk.)	Credit (Tk.)
1	Cash	2,66,000	
2	Bills Receivable	10,000	
3	Office Rent	25,000	
4	Accounts payable		6,000
5	Purchase Account	12,000	
6	Capital		3,00,000
7	Service Revenue		15,000
8	Prepaid Income		12,000
9	Salary	20,000	
10	<b>Total</b>	<b>3,33,000</b>	<b>3,33,000</b>

Thank You All

Any Question?

# Cash Book and Bank Reconciliation

Presented by:

Md. Farid Uddin FCA, CIPA  
SVP, Head of FAD & CFO  
Islami Bank Bangladesh PLC.

# Cash Book

A cash book is a financial ledger that contains all cash transactions including all cash receipts and disbursements, bank deposits and withdrawals during a period. Entries in the cash book are then posted into the general ledger.

- All transactions in a cash book have two sides: **debit and credit.**
- All **cash receipts** are recorded on the **left-hand side as a debit**, and
- All **cash payments** are recorded by date on the **right-hand side as a credit.**

The difference between the left and right sides shows the balance of cash on hand & at bank, which should be a net debit balance if cash flow is positive.

# Different Types of Cash Books

- The cash book is set up in columns. There are three common versions of the cash book:
  1. Single column,
  2. Double column, and
  3. Triple column
- The single-column cash book shows only receipts and payments of cash.
- The double-column cash book shows cash receipts and payments as well as details about bank transactions.
- The triple-column cash book shows all of the above plus information about purchase or sales discounts.





# November – 2022 (Question no. 4c)

**From the following particulars prepare a three column cash book of M/s Habib Traders:**

Date	Particulars
January 1, 2022	Cash in hand Tk. 80,000 (debit balance), cash at bank Tk. 50,000 (debit balance)
January 5, 2022	Cash deposit into bank Tk. 25,000/-
January 10, 2022	Paid by cash to Jamil Tk. 11,750/- and discount received from him Tk. 250/-
January 15, 2022	Cash purchase Tk. 20,000/- and credit Sale Tk. 35,000/-
January 20, 2022	Cash sale Tk. 40,000/- and credit sale Tk. 35,000/-
January 22, 2022	Collection through cash from Mr. Rashed Tk. 5,000/- as a full settlement of Tk. 6,000/-
January 25, 2022	Paid by cash Tk. 2,000/- for rent and Tk. 5,000/- for salary
January 30, 2022	Withdraw from the bank Tk. 15,000/-

# Solution

## M/s Habib Traders Three Column Cash Book

Date	Particulars	F.	Discount	Cash	Bank	Date	Particulars	F.	Discount	Cash	Bank
1-Jan-2022	To Balance b/d			80,000	50,000						
5-Jan-2022	To Cash ©				25,000	5-Jan-2022	By Bank ©			25,000	
						10-Jan-2022	By Mr. Jamil A/c.		250	11,750	
						15-Jan-2022	By Purchase			20,000	
20-Jan-2022	To Sale			40,000							
22-Jan-2022	To Mr. Rashed A/c.		1,000	5,000							
						25-Jan-2022	By Rent			2,000	
						25-Jan-2022	By Salary			5,000	
30-Jan-2022	To Bank ©			15,000		30-Jan-2022	By Cash ©				15,000
						31-Jan-2022	By Balance c/d			76,250	60,000
			<u>1,000</u>	<u>140,000</u>	<u>75,000</u>				<u>250</u>	<u>140,000</u>	<u>75,000</u>

# Bank Reconciliation Statement

- A bank reconciliation statement is a process of **accounting** for differences between the balance as stated on the bank statement and the balance of cash according to the depositor's records.
- A bank reconciliation statement is prepared by a depositor (account holder) to overcome differences in the balances of the **cash book** and **bank statement**.
- A bank reconciliation statement summarizes banking and business activity, comparing the bank's account balance with internal financial records.
- After all adjustments, the balance on a bank reconciliation statement should equal the ending balance of the bank account.

# Reasons for Difference Between Bank Statement and Company's Accounting Record

**Deposits in transit**

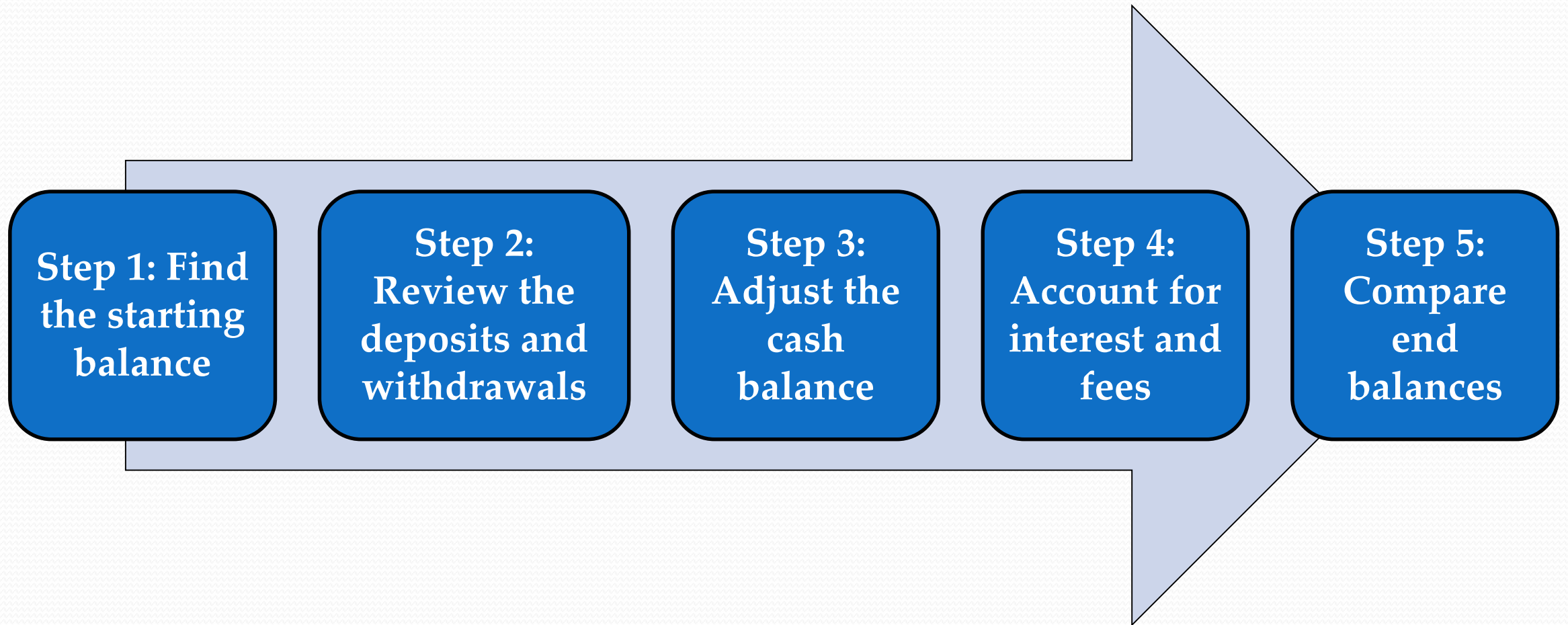
**Outstanding checks**

**Bank service fees**

**Interest income**

**Not sufficient funds  
(NSF) checks**

# Bank Reconciliation Procedure



## May – 2022 (Question no. 6b)

**Prepare a bank reconciliation statement of M/S Abdullah Enterprise as on 31.12.2021 with the following information:**

- i) Bank balance as on 31.12.2021 as per bank statement is Tk.5,350.
- ii) At the end of December, bank balance as per cash book is Tk.3,950.
- iii) A draft deposited but not credited for Tk.2,800.
- iv) Bank directly collected a bill for Tk.5,000 on behalf of the company.
- v) A cheque issued to a supplier but was not presented for encashment Tk.2,750.
- vi) Bank charges for the month Tk.550 was not recorded in the cash book.
- vii) Total Not Sufficient Fund cheque was Tk.3,000.

## Solution

M/S Abdullah Enterprise  
Bank Reconciliation Statement  
As at 31.12.2021

Particulars	Taka	Taka
<b>Balance as per Cash Book</b>		<b>3,950</b>
<b>Add:</b>		
(a) Bill directly collected by the bank	5,000	
(b) Cheque issued but not presented for encashment	2,750	<u>7,750</u>
		<b>11,700</b>
<b>Less:</b>		
i) Draft Deposited but not credited	2,800	
ii) Bank Charge	550	
iii) Dishonored Cheque for Not Sufficient Fund	3,000	<u>6,350</u>
<b>Balance as per Pass Book/ Bank Statement</b>		<b><u>5,350</u></b>



Thank You All

Any Question?