Bachelor of Engineering

Eng 4129 – Engineering, Management And Society I

Introductions

- Need to know each other.
- Need to build a team
- Need to know the objective of the course component

The stages of team formation

- According to the Team Development Model, each group or team is likely to go through the following connected 5 stages during their joint work:

1. **The Forming Stage** — mainly characterized by *team orientation*.

⬇

2. **The Storming Stage** — mainly characterized by *a power struggle*.

⬇

3. **The Norming Stage** — mainly characterized by *cooperation*, *integration*, and *unity*.

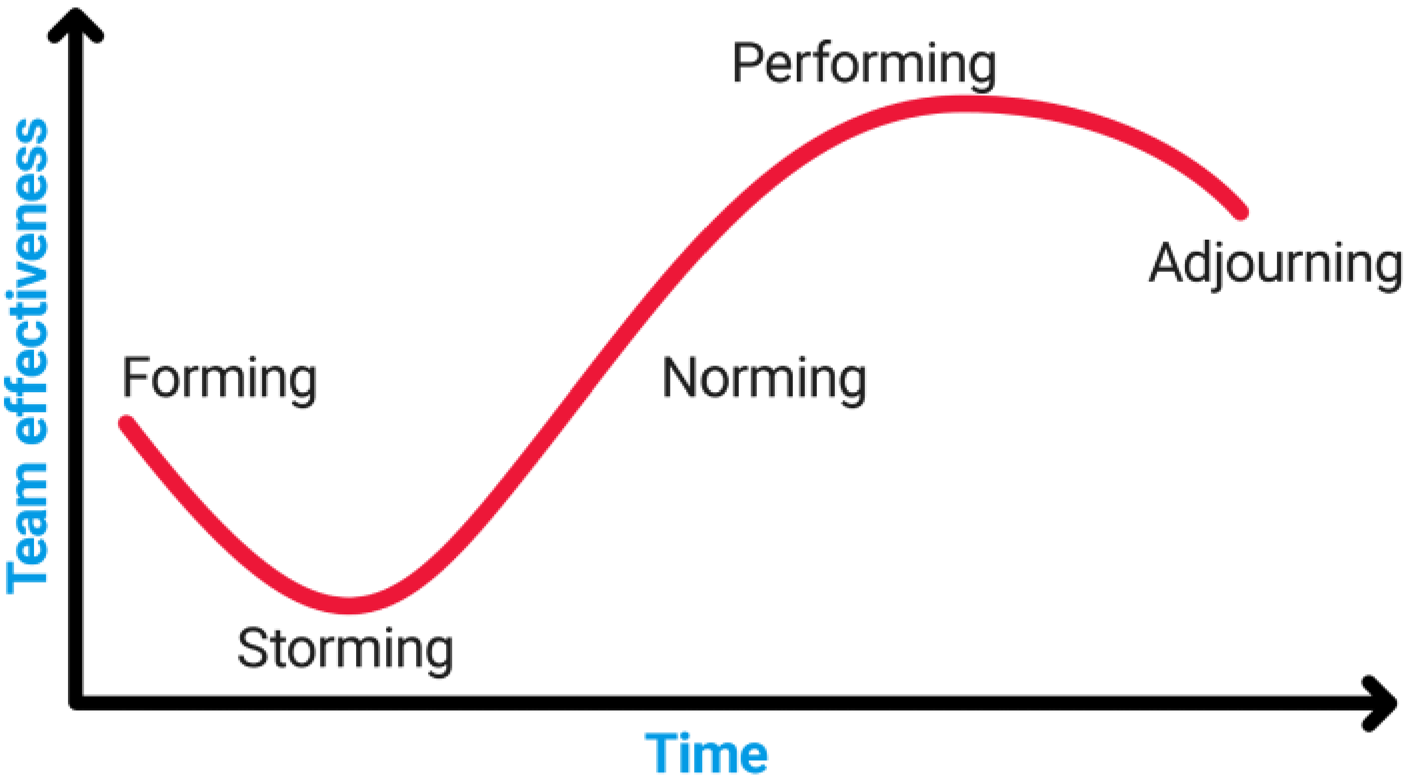
⬇

4. **The Performing Stage** — mainly characterized by overall *synergy*.

⬇

5. **The Adjourning Stage** — mainly characterized by *a sense of closure*.

The stages of team formation



Lecturer

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Brief CV

Professional and academic qualifications

- B Eng. – Mechanical – FEIZ
- FCCA
- FZICA

Working experience

- CEO – Sinewy Corporate Services Ltd/ Sinewy Corporate Consultants – 2010 to date
- Freelance consultant 2003 – 2010;
- Projects Manager/Senior Projects Officer – DBZ – 1989 – 2002
- Maintenance Engineer – KTZ – 1987 - 1989

Introductions by students

- **Please give a brief background about yourself**
  - Name
  - Age
  - Family status
  - Education and professional ladder
  - Working/business experience
  - ***THE FUTURE – THE VISION***

Course objective

- At the end of the course component training; you will be able to:
  - Define Accountancy
  - State the purpose of accountancy
  - Define Balance sheets (statements of financial position), profit and loss accounts, statement of cash flows, and appropriation accounts.
  - Prepare, read and interpret financial statements
  - Define Enterprise, entrepreneur and Entrepreneurship,
  - State the purpose of entrepreneurship
  - Define micro- and macro economics
  - Describe basic principles of economics; including the factors of production

Course outline

The course: Engineering, Management and Society I

Course broad areas:

- Economic Concepts
- Entrepreneurship
- Accountancy

Accountancy and Entrepreneurship

Areas covered:

- Accountancy
  - Introduction to Accountancy,
  - Balance sheets,
  - profit and loss accounts,
  - *Statement of cash flows*
  - appropriation accounts.
- Entrepreneurship
  - Enterprise, entrepreneur and entrepreneurship
  - Importance of entrepreneurship in an economy
  - The role of government in entrepreneurship
  - Traits of a successful entrepreneur
  - Investment appraisal (discounting methods and payback period)

Economics

- Introduction to micro economics:
  - elementary theories of demand and supply,
  - factors of production,
  - production functions,
  - diminishing returns,
  - comparative advantage.
- Introduction to Macro Economics:
  - Circular flow of income,
  - Gross Domestic and Gross National product,
  - balance of payments,
  - economic planning,
  - public and private sectors,
  - economic theories of development.

Assessment

- Assignments – 20%
- Tests – 20%
- Final examination – 60%

Accountancy

Accounting + Book-keeping

- What is Accounting?
- What is Bookkeeping?

Accounting + Book-keeping

- What is accounting?
- Accounting
  - The language of business.
  - describes the transactions entered into by all kinds of organisations
  - Accounting is concerned with the use to which the accounting records are put to, their analysis and interpretation.
  - accounting is responsible for interpreting, classifying, analyzing, reporting, and summarizing the financial data.

Bookkeeping

What is bookkeeping?

- In the simplest of terms, bookkeeping is responsible for the recording of financial transactions.
- actual record making phase in the accounting process
- Bookkeeping and accounting may appear to be the same profession to an untrained eye.

Why Accounting?

- There are two main questions that the managers or owners of a business want to know;
  1. whether or not the business is operating at a profit; and
  2. whether or not the business will be able to meet its commitments (financial obligations) as they fall due.

  Both these questions should be answered by the use of the accounting data of the firm.

Cost Management

- An organisation has numerous functions that it undertakes.
- The functions and activities contribute to the final product and its delivery to the customer.
- The financial aspects of these and other operations must be controlled in order to ensure that the company achieves its targets in terms of turnover and profit.

Cost Management

Cost Management

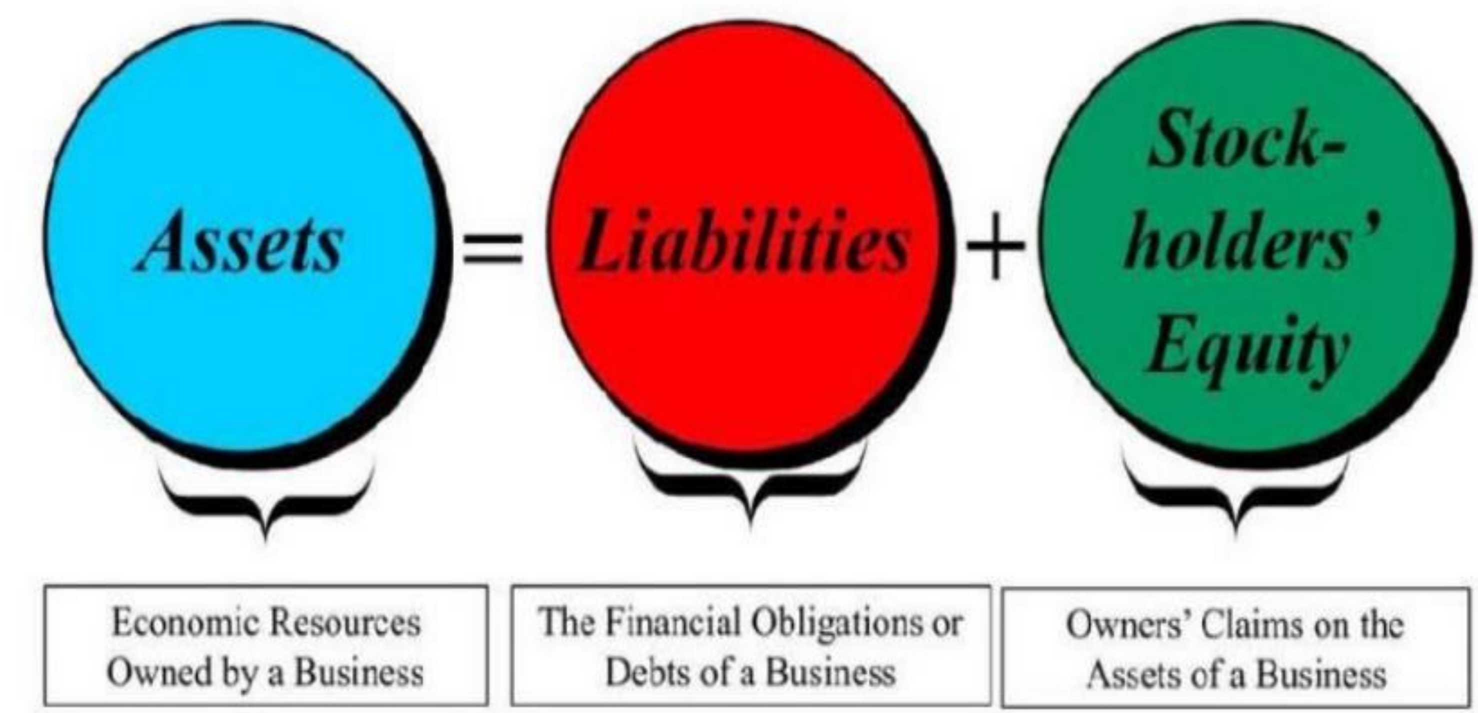
- What is cost management?
- Cost management refers to the management and control of the business costs to ensure businesses spend less and earn more to reap more profits.
- The objective of the management process is not to reduce the costs but to reduce the cost only up to the stage where the quality of the product is not hampered.
- Planning, communication, motivation, appraisal, and decision-making are the features that make managing costs an important business procedure.
- Resource allocation, cost estimation, cost budgeting, and cost control are the major functions of the cost management process.

The accounting equation

- What is the accounting equation?
- The whole financial accounting is based on the accounting equation.
- **Defn:** For a firm to operate it needs resources, and that these resources must be supplied to the firm by someone.
- The equation is then:

Assets = Capital + Liabilities

The Accounting Equation



The accounting equation

- The two sides of the equation will have the same totals.

Why?

- This is because we are dealing with the same thing from two different points of view. It is:

Resources: What they are = Resources: Who supplied them

- (Assets) (Capital + Liabilities)
- ***The accounting equation represents the relationship between the assets, liabilities and capital of a business and it is fundamental to the application of the double entry bookkeeping system where every transaction has a dual effect on the financial statements.***

Assets, Capital & Liabilities

- ***What are assets?***
- An ***asset*** is a resource with economic value that an individual, company, or country owns or controls with the expectation that it will provide a future benefit.
  - ***Assets*** consist of property of all kinds, such as buildings, machinery, stocks of goods and motor vehicles, also benefits such as debts owing by customers and the amount of money in the bank account owned by the firm.
  - ***Property*** is anything over which a business or a person has lawful rights. They may have some enforceable privileges over the items. Most of the properties contain present or future monetary value and that is why they are considered assets.

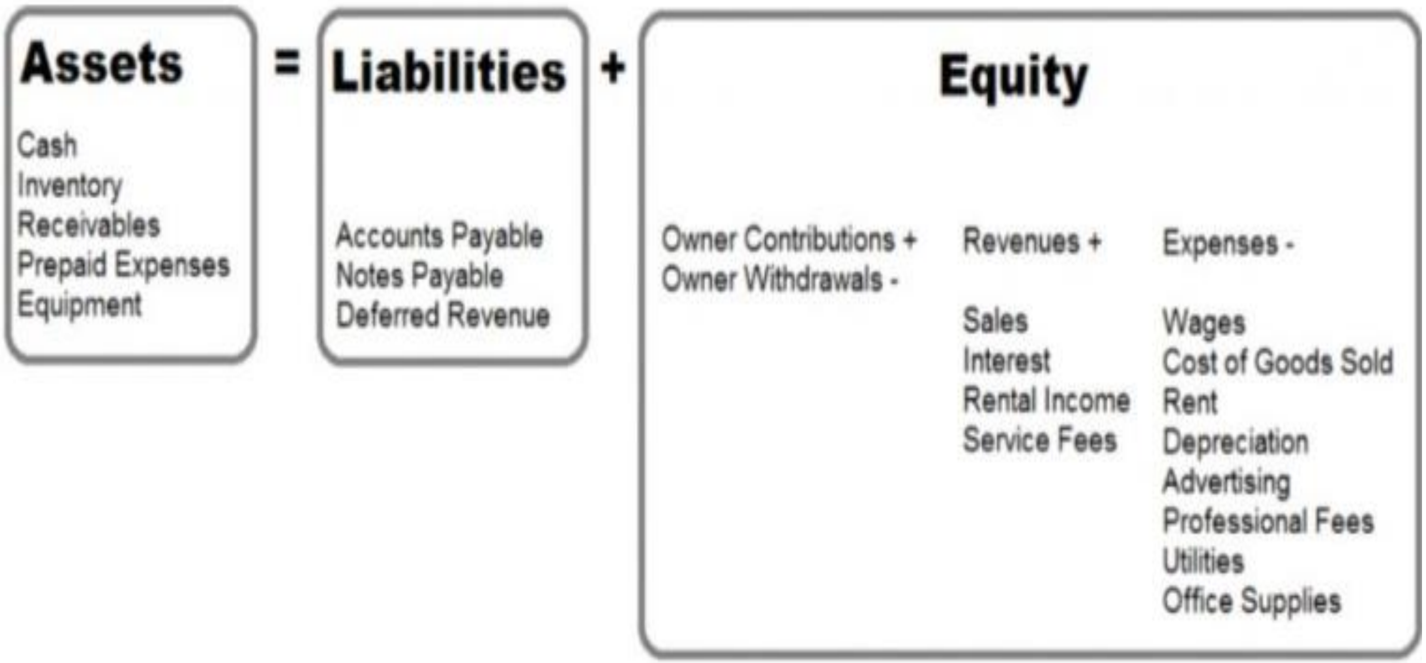
Assets, Capital & Liabilities

- ***What Is Economic Value?***
  - Economic value is the value that a person places on an economic good based on the benefit that they derive from the good.
  - It is often estimated based on the person’s willingness to pay for the good, typically measured in units of currency.
  - The economic value should not be confused with market value, which is the market price for a good or service which can be higher or lower than the economic value that any particular person puts on a good.
- What is an economic good?
  - a product or service which can command a price when sold.

Assets, Capital & Liabilities

- ***What are capital and liabilities?***
- A ***liability*** is a financial obligation of an organization that results in the organization's future sacrifices of economic benefits to other entities or businesses.
- Liabilities are legally binding obligations that are payable to another person or entity.
  - `Settlement of a liability can be accomplished through the transfer of money, goods, or services.
  - ***Liabilities*** consist of money owing for goods supplied to the firm, and for expenses, also for loans made to the firm.
- ***Capital*** is often called the owner's equity or net worth. Funds put in by the owners of the business.
- In simple words, capital means that amount or asset which is invested in business by businessman or owner of the business. When the business is closed, after paying outside creditors, the balance amount will be his capital which he can obtain.

Assets, Capital & Liabilities



Deferred Revenue

- What is deferred Revenue and house is it treated in the business accounts?
- Deferred revenue, also known as unearned revenue, refers to advance payments a company receives for products or services that are to be delivered or performed in the future.
- The company that receives the prepayment records the amount as deferred revenue, a liability, on its balance sheet (Statement of Financial Position).
- Why is deferred revenue treated as a liability?
- Deferred revenue is a liability because it reflects revenue that has not been earned and represents products or services that are owed to a customer.
- As the product or service is delivered over time, it is recognized proportionally as revenue on the income statement.

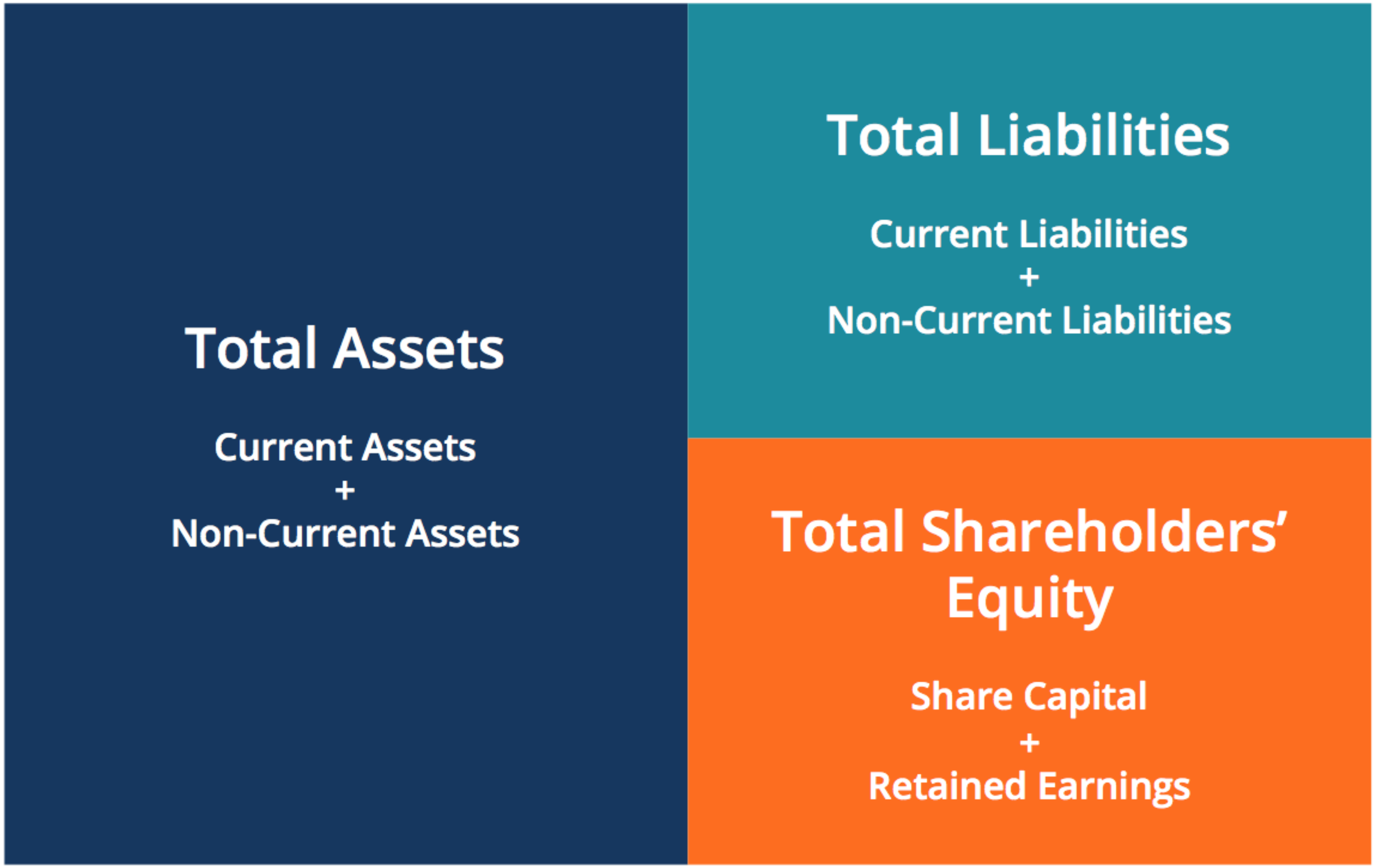
Classifications - Assets, Capital & Liabilities

- What does classification mean?
- the act or process of dividing things into groups according to their type.

Asset Classification

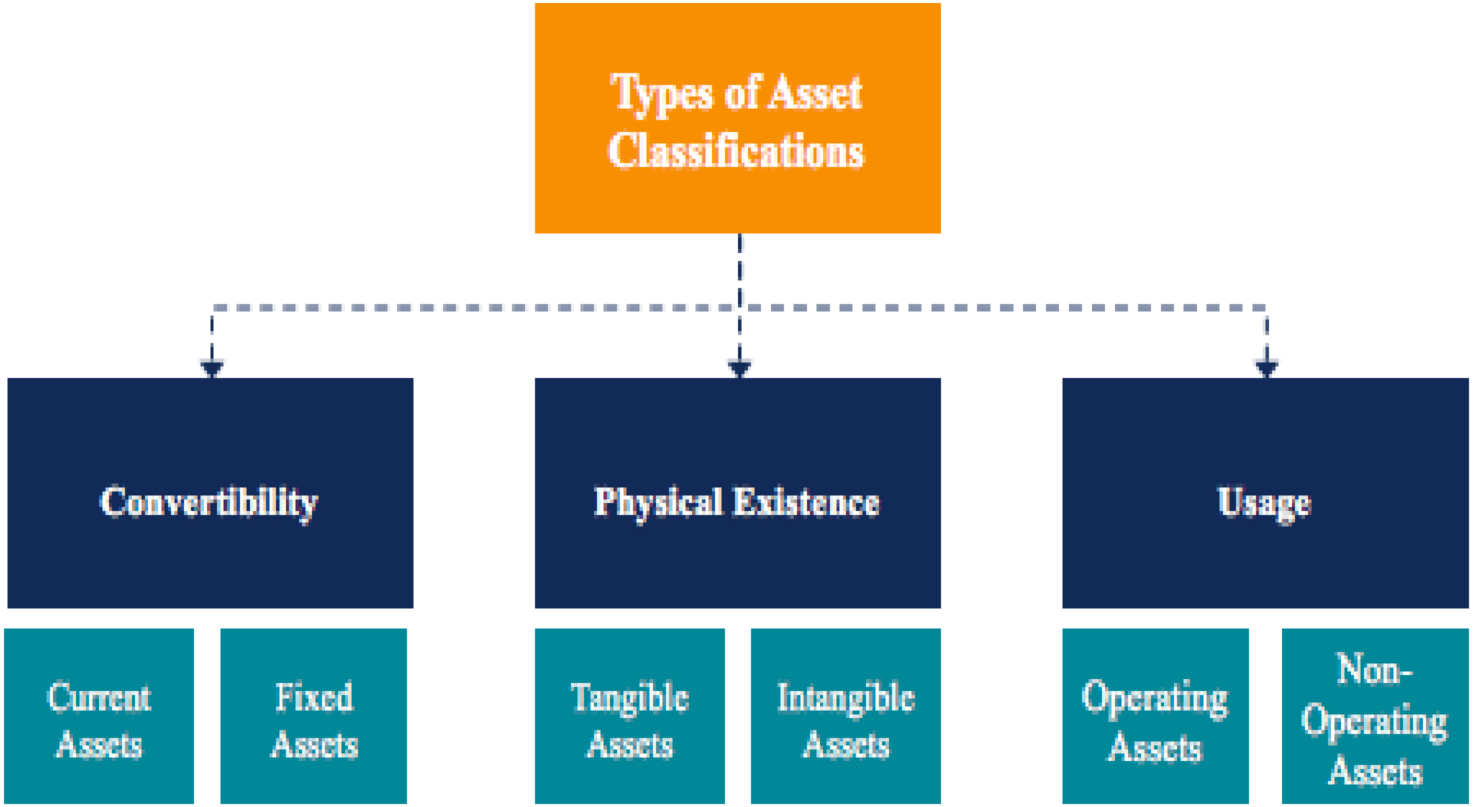
- What is Asset Classification?
- Asset classification is a process for systematically segregating the assets into various groups, based on the nature of the assets, by applying the accounting rules to make proper accounting under each group.
- The groups are later consolidated at the financial statement level to report.
- What is Liability Classification?
- What is Equity Classification?

Classifications - Assets, Capital & Liabilities



Classification of Assets

How are the assets classified?



Classification based on convertibility

- What does classification based on convertibility mean?
- Convertibility—also called “liquidity”.
- It is about how easy it is to turn an asset into cash.
- Current assets are ones that can be converted to cash quickly, while noncurrent (or fixed) assets are ones you can't easily and quickly convert into cash.
- Liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price.
- Cash is the most liquid of assets, while fixed assets/items are less liquid.

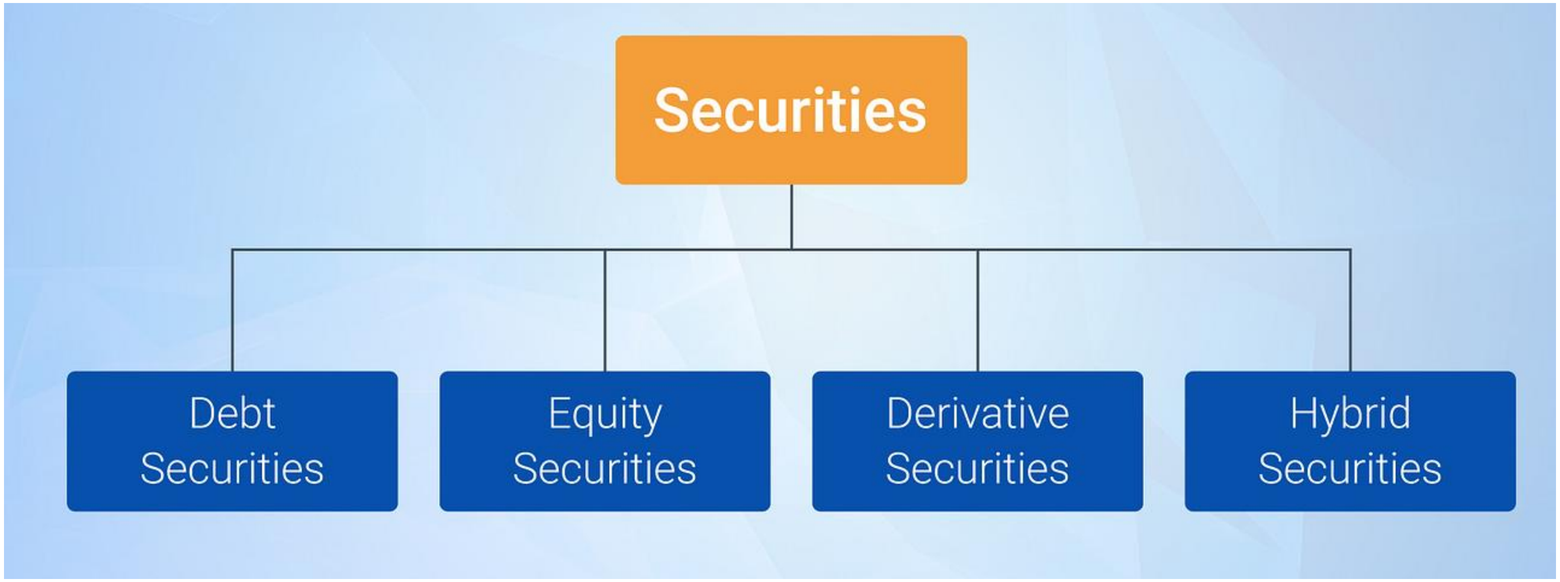
Security

What are securities?

- These are financial instruments with monetary value that can be bought, sold, or traded on exchanges and other platforms.

What are the common securities?

There are four main types of security: *debt securities*, equity securities, derivative securities, and *hybrid securities*, which are a combination of debt and equity.



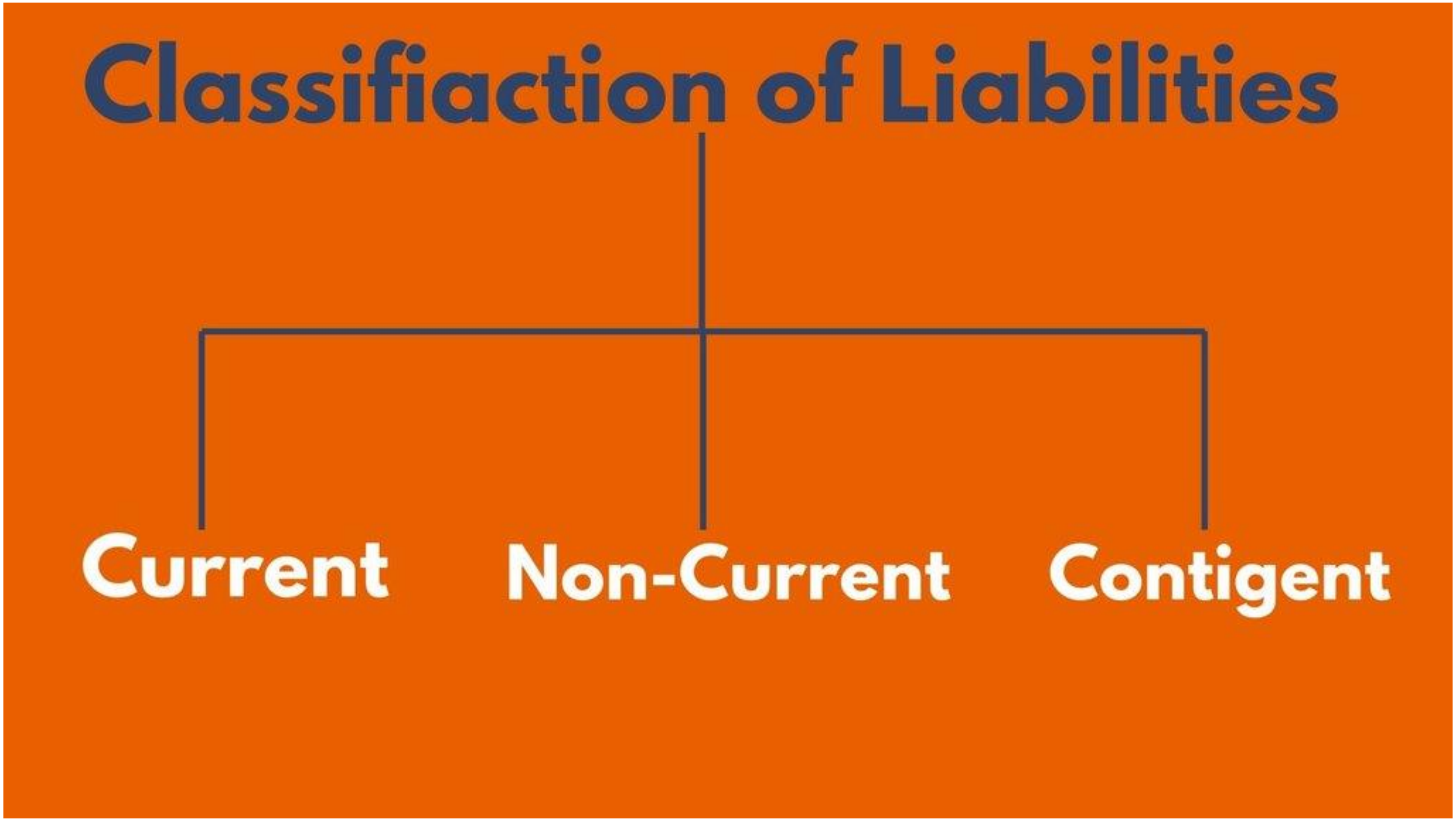
Classification of Assets – Physical Existence

- What is an Intangible Asset?
- An intangible asset is an asset that is not physical in nature.
  – Examples - Goodwill, brand recognition and intellectual property, such as patents, trademarks, and copyrights, are all intangible assets.
- What is a Tangible Asset?
- Tangible assets are assets with a physical form and that hold value.
  – Examples include property, plant, and equipment.
- Tangible assets are seen and felt and can be destroyed by fire, natural disaster, or an accident.

Classification of Assets – Usage

- What are Operating Assets?
- Operating assets are those assets acquired for use in the conduct of the ongoing operations of a business; this means assets that are needed to generate revenue.
  - Examples of operating assets are cash, prepaid expenses, accounts receivable, inventory, and fixed assets.
- What is a Non-Operating Asset?
- Non-operating assets are assets that are not considered to be part of a company's core operations.
  - A company's non-operating assets may be unused land, spare equipment, investment securities, and so on.

Classification of Liabilities



Classification of Liabilities

These are the three main classifications of liabilities:

- **Current liabilities (short-term liabilities)** are liabilities that are due and payable within one year.
- **Non-current liabilities (long-term liabilities)** are liabilities that are due after a year or more.
- **Contingent liabilities** are liabilities that may or may not arise, depending on a certain event.

Classification of Shareholders' Equity

- What is Stockholders Equity?
- Stockholders Equity (also known as Shareholders Equity) is an account on a company's statement of financial position that consists of share capital plus retained earnings.
- *Share Capital* – amounts received by the reporting entity from transactions with its owners.
- *Retained earnings* are the amount of profit a company has left over after paying all its direct costs, indirect costs, income taxes (net profit) and its dividends to shareholders.
- This represents the portion of the company's profits that can be used, for instance, to invest in new equipment, R&D, and marketing.

Bookkeeping

Bookkeeping

- What is bookkeeping and why is it important?
- Bookkeeping is the process of recording your company's financial transactions into organized accounts on a daily basis.
- What is the importance of bookkeeping?
- Importance of bookkeeping:
  - Accurate Financial Reporting
  - Tax Compliance
  - Budgeting and Forecasting
  - Organized Record Maintenance
  - Meet Government Regulations
  - Tracking Profit and Growth
  - Better Cash Flow
  - Focus on Strategy
  - Financial Management
  - Business Analysis

Types of Bookkeeping

- What are the popular types of bookkeeping?
- There are two types/methods that are most commonly used in bookkeeping.
- These are *single-entry bookkeeping* and *double-entry bookkeeping.*
- ***Single-entry bookkeeping***
  - What is single-entry bookkeeping?
  - Single entry is the most simple bookkeeping method and involves making only one entry for every transaction.
  - Since there is only one entry, there is usually no record of liabilities or assets.
  - The records will mainly consist of the cash flowing into and out of the business.

Types of Bookkeeping

- What are the popular types of bookkeeping?
- Double-entry bookkeeping
- What is Double-entry bookkeeping?
- While single entry is the simplest method of bookkeeping, double entry is the method most commonly used.
  - With double entry, there are two entries for every transaction since there is something gained in a debit and something lost in a credit.
  - Double-entry bookkeeping is typically used by companies with more complex transactions such as businesses that buy inventory on credit and produce revenue from accounts receivable.
  - These businesses also use the accrual method of accounting.

Types of Bookkeeping - Computerized Bookkeeping

- The 3rd type of bookkeeping is the computerised system.
- Computerized bookkeeping involves using accounting software to record and organize financial transactions.
- It is the most efficient and accurate method of bookkeeping, as it eliminates the risk of human error and provides real-time access to financial information.
- Computerized bookkeeping software also provides features such as automated invoicing, expense tracking, and financial reporting.

Home work

- What are the advantages and disadvantages of single-entry and double-entry bookkeeping?
- How do you choose which bookkeeping method to use amongst the 3 methods?

T-Accounts and Ledgers

What are **T-accounts** and **ledgers**?

- In accounting we open an account for each item in our records.
- An account has the following format:

- The conventional account has the format of the letter T; hence they are often referred to as T accounts.
- By account, we mean a summary record of all financial transactions relating to a particular item in a business.

T-Accounts and Ledgers

- Convention, which has not changed for hundreds of years, prescribes that the left-hand side of a T-account is called the debit side, and the right-hand side is called the credit side.

- **What is the main reason that all accounts are divided into a left or debit side and a right or credit side?**
- This is because of the dual aspect of double-entry bookkeeping, if one account changes as a result of a financial transaction, then another account needs to change to keep the accounting equation in balance.

T-Accounts and Ledgers

- What are debits and credits?
- **Debits** and **credits** in double-entry bookkeeping are entries made in account ledgers to record changes in value resulting from business transactions.
  - A debit entry in an account represents a transfer of value *to* that account, and
  - a credit entry represents a transfer of value *from* the account.
- Each transaction transfers value from credited accounts to debited accounts

T-Accounts and Ledgers

- **What is a ledger?**
- The **ledger** is "the principal book in which the commercial transactions of an organisation are recorded."
- Before the days of accounting software, bookkeepers and accountants actually kept **physical books**, and each ledger was a separate physical book.
- However, times have changed. And a simpler definition is probably more appropriate now too.
- So these days, this might be a better description:
  – **A ledger is simply a whole bunch of T-accounts grouped together.**

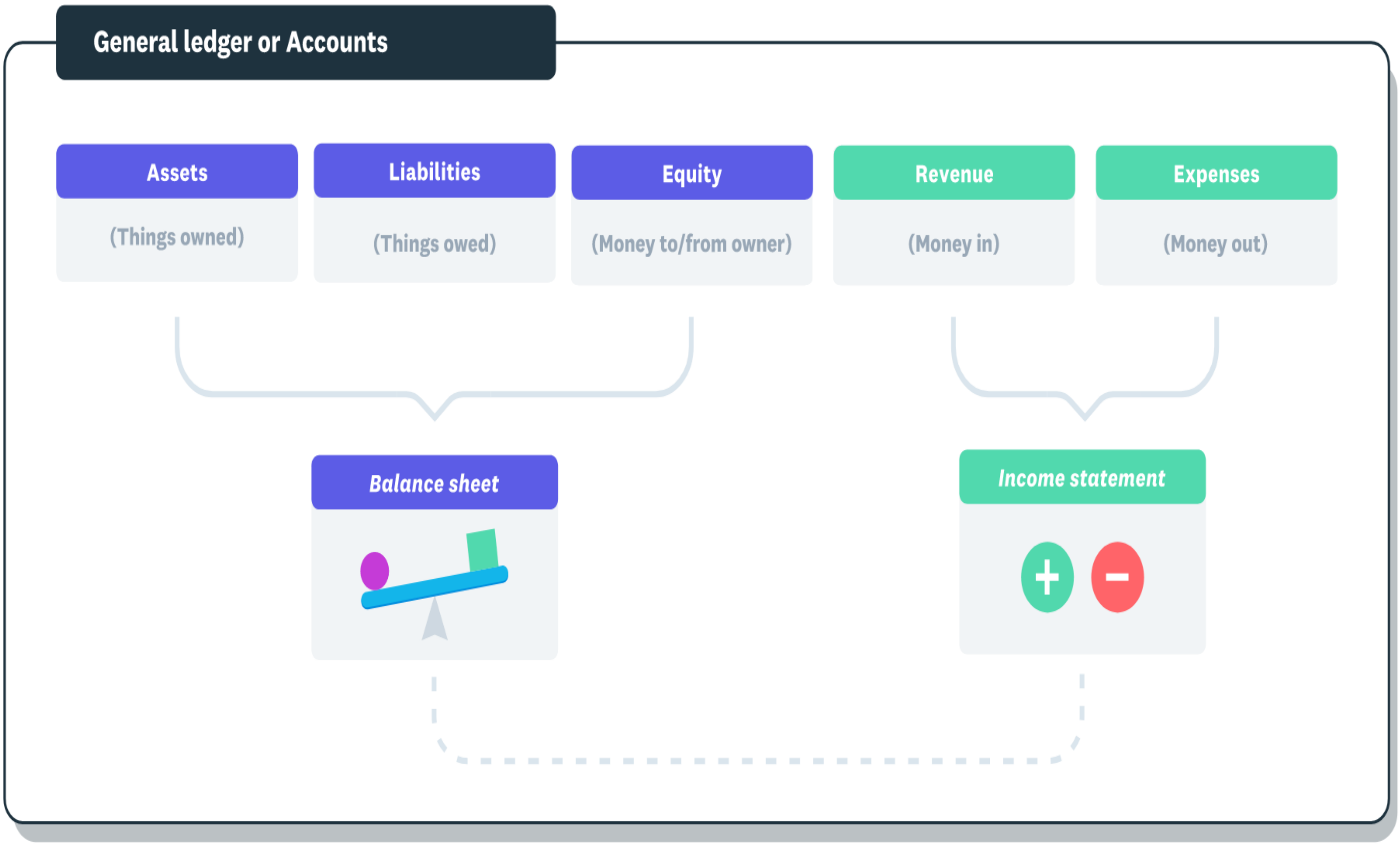
T-Accounts and Ledgers

- **What is the General Ledger ?**
- **The general ledger is simply our main ledger in accounting.**
- All the main T-accounts in a business fall under the *general ledger*.
- For example, land and buildings, equipment, machinery, vehicles, financial investments, bank accounts, inventory, owner's equity (capital), liabilities - the T-accounts for all of these can be found in the *general ledger*.

The General Ledger

- The general ledger, is a record of a business's financial transactions.
- It summarizes all the revenue and expenses of the business, plus the debts owed and assets owned.
- The transactions in a general ledger are organized into five main types:
  - assets,
  - liabilities,
  - equity,
  - revenue, and
  - expenses.

The General Ledger



The General Ledger

- What is recorded in a general ledger?
- *Assets* – the value of things that the business owns, or part owns, e.g., inventory
- *Liabilities* – the amount of what the business owes, e.g., bank loans
- *Equity* – funds introduced into the business and drawings by the owner(s)
- *Revenue* – money coming into the business through sales, interest or dividends
- *Expenses* – money paid out to keep the business running, e.g., rent

The General Ledger

- How does a general ledger drive reporting?
- The information in a general ledger is used to produce the following:
  - trial balance (TB),
  - Statement of financial position (balance sheet),
  - Statement of profit or loss and other comprehensive income (income statement),
  - Statement of cash flows, and
  - other financial reports.
- These reports reveal the financial health of a business.

Special Meaning of ‘Sales’ and ‘Purchases’

- ‘Sales’ and ‘purchases’ have special meaning in accounting when compared to ordinary language usage.
- Purchases in accounting means purchase of those goods which the firm buys with the prime intention of selling.
- Sales means the sale of those goods in which the firm normally deals and were bought with the prime intention of resale.

The statement of financial position

- The accounting equation is expressed in a statement of financial position (it used to be called balance sheet)

Example:

a) **The introduction of capital**

- On March 23, 2023, Ngenda started business and deposited ZMW10, 000 into a bank account opened specifically for the business.
- What are the bookkeeping entries that will be made?
  - Credit the Capital account
  - Debit the Bank account
- Prepare the statement of financial position as at March 23, 2023
- The statement of financial position would appear:

The statement of financial position

Ngenda Situmbeko

Statement of financial position as at March 23, 2023

Assets	ZMW	Capital & Liabilities	ZMW
Cash at bank	10,000	Capital	10,000
Total	10,000	Total	10,000

The statement of financial position

b) The purchase of an asset and the incurring of a liability

- On April 3, 2023 Ngenda buys a building for ZMW6, 000. On April 6, 2023 Ngenda buys some goods for ZMW1, 000 from C Banda, and agrees to pay for them sometime within the next two weeks.
- What are the bookkeeping entries that will be made to record the above transactions?
  - Credit the bank account
  - Debit the buildings account
  - Credit C Banda account
  - Debit the purchases account
- Prepare the statement of financial position as at April 15, 2023

The statement of Financial Position

Ngenda Situmbeko

Statement of financial position as at April 15, 2023

Assets	ZMW	Capital & Liabilities	ZMW
Buildings	6,000	Capital	10,000
Stock of goods	1,000	Creditor	1,000
Cash at bank	4,000		
Total	11,000	Total	11,000

The double Entry System for Assets and Liabilities

What is double entry system?

Each transaction affects two items:

- To show the full effect of each transaction, accounting must therefore show its effects on each of the two items, be they assets, capital or liabilities.
- the double entry system shows this twofold effect, that’s each transaction is entered twice, once to show the effect upon one item, and a second to show the effect upon the other item.

The double Entry System for Assets and Liabilities

- The double entry system has an account (meaning details of transactions in that item) for every asset, every liability and for capital.
- There will be a shop premises Account (for transactions in shop premises), a motor vehicles Account (for transactions in motor vehicles), and so on for every asset, liability and for capital.
- Each account should be shown on a separate page.
- The standard approach for double entry is thus, ***debit*** the account that has received the benefit and ***credit*** the account that has given out benefit.

The double Entry System for Assets and Liabilities - Summary

- What are the rules of double-entry bookkeeping?
- If a transaction increases an asset account, then the value of this increase must be recorded on the debit or left side of the asset account.
- If, however, a transaction decreases an asset account, then the value of this decrease must be recorded on the credit or right side of the asset account.
- The converse of these rules applies to liability accounts and the capital account, as shown in the three T-accounts on the next slide.

The double Entry System for Assets and Liabilities - Summary

Asset account

debit (dr)	credit (cr)
Increases asset	Decreases asset

Liability account

debit (dr)	credit (cr)
Decreases liability	Increases liability

Capital account

debit (dr)	credit (cr)
Decreases capital	Increases capital

The double Entry System for Assets and Liabilities - Summary

- The Double-entry system is a system of bookkeeping where every financial transaction is recorded in at least 2 different accounts, with equal and opposite effects on the respective accounts.
- In a double-entry system, the entries are made in the system to satisfy the equation:
    - Assets = Liabilities + Equity
- Every credit is offset by debits, either in the general ledger or a T-account in this system.
- In other words, every transaction has an equal credit entry and debit entry in different accounts.

The double Entry System for Assets and Liabilities - Summary

- **What are the main Account Types in bookkeeping?**
- When you employ double-entry accounting, you will need to use several types of accounts.
- Some key account types include:
  - **Asset accounts** show the monetary values (kwacha/dollars) associated with things a business owns (assets), such as the cash in its bank account or the price paid for its warehouse.
  - **Liability accounts** show what the firm owes, such as a building mortgage, equipment loan, or credit card balances.
  - **Equity accounts** show monetary values of common stock, preferred stock, contributed surplus, additional paid-in capital (money contributed by shareholders), retained earnings, other comprehensive earnings, and treasury stock.
  - **Income accounts** represent money received, such as sales revenue and interest income.
  - **Expense accounts** show money spent, including purchased goods for sale, payroll costs, rent, and advertising.

The double Entry System for Assets and Liabilities - Summary

- The double-entry system requires a chart of accounts, which consist of all of the statement of financial position (balance sheet) and income statement accounts in which accountants make entries.
- A given company can add accounts and tailor them to more specifically reflect the company's operations, accounting, and reporting needs.

Balancing off Accounts

- Every so often we must look at each account to see what is revealed by the entries.
- Probably the most obvious reason for this is to find out how much our customers owe us in respect of goods we have sold to them.
- The main purpose for balancing is to pinpoint a business's financial standing at a given point in time.
- **So, what is balancing off accounts?**
- The practice of totaling the debit and credit sides of an account and inserting a balance to make them equal at the end of a financial accounting period.

Balancing of accounts

- What process is followed in balancing of accounts?
- The process is as follows:
  - Total both sides (the debit and credit sides) of the ledger account.
  - Calculate the balance (the difference between the total debits and total credits).
  - Add a one sided entry to make the totals on both sides of the account to be equal. *This is to be the balance c/f (carried forward);*
  - That amount of the balance c/f should be written at the bottom in the column with the greater total. *The term for it is the balance b/f (brought forward);*

Balancing of accounts

- The balancing off process cont'd:
  - For revenue and expense accounts the difference between both sides of the account is the figure to be transferred to the income statement.
  - For assets, capital and liabilities accounts, the difference between both sides of the account is the figure to be transferred to the statement of financial position.

Balancing off Accounts

What is a Balance?

- In bookkeeping the term balance means the net difference between the debits and credits on each account.
  - If the debits are greater than the credits the balance will be a debit balance.
  - If the credits are greater than the debits the balance will be a credit balance.
- The account balance at the start of an accounting period is referred to as the beginning balance or the opening balance.
- The balance at the end of an accounting period is known as the ending balance or closing balance.

Balancing off Accounts

Eclipse Banda

Please balance off the following account.

2023	ZMW	Capital & Liabilities	ZMW
April 1 Sales	316	April 28 Cash	316
April 15 Sales	412		
April 30 Sales	236		

Balancing off Accounts

Eclipse Banda

2023	ZMW	Capital & Liabilities	ZMW
April 1 Sales	316	April 28 Cash	316
April 15 Sales	412	April 30 Balance carried down	648
April 30 Sales	236		
Total	964	Total	964
May 1 Balance brought down	648		

Balancing off accounts

- The above is a debit balance. As the total of the debit side originally exceeded the total of the credit side, the balance is said to be a debit balance.
- Exactly the same principles will apply when the balances are carried down to the credit side.

Computers and bookkeeping machinery

With manual bookkeeping:

- the left hand side of the account is used as the debit side, and
- the right hand side is shown as the credit side.
- When computers (spread sheet or accounting package) or bookkeeping equipment is used the style of the ledger account is different.
- It appears as three columns of figures, being one column for debit entries, another column for credit entries, and the last column for the balance.

Computers and bookkeeping machinery

Eclipse Banda

	Debit	Credit	Balance(and whether debit or credit)
2023	ZMW	ZMW	ZMW
April 1 Sales	316		316 Dr
April 15 Sales	412		728 Dr
April 28 Cash		316	412 Dr
April 30 Sales	236		648 Dr

Drawings

- What are Drawings in accounting?
- Drawings are the amounts taken by the owner of a business for his/her personal use in anticipation of profit. They will therefore result in a reduction in capital (equity + reserves). Drawings are usually made in the form of cash, but there could be other assets or goods withdrawn by the owner for his/her personal use.
- On the other hand, profits earned by the business increase owner's capital; drawings reduce the amount of capital on the other hand.
- What are Retained Earnings?
- Retained Earnings (RE) are the accumulated portion of a business's profits that are not distributed as dividends to shareholders but instead are reserved for reinvestment back into the business.
- What are dividends?
- Dividends are the distribution of part of a company's profits to shareholders.

The Trial Balance

What is a trial balance?

- A trial balance (TB) is a list of all the balances in the nominal ledger accounts.
- What is the purpose of the TB?
  - It serves as a check to ensure that every transaction, a debit recorded in one ledger account has been matched with a credit in another.
  - If the double entry has been carried out, the total debit balances should always equal the total of the credit balances.
  - Lastly, the TB forms the basis for the preparation of the main financial statements.

The Trial Balance

- The method of bookkeeping in use is that of double entry method. This means:
  - For each debit entry there is a corresponding credit entry
  - For every credit entry there is a corresponding debit entry.
- All the items recorded in all the accounts on the debit side should equal in *total* all the items recorded on the credit side of the books.
- To see if the two totals are equal, or in accounting terminology to see if the two sides of the books “balance”, a trial balance (TB) may be drawn up periodically.

The Trial Balance (TB)

- The TB is important due to the following reasons:
- It summarizes all the financial transactions of the business.
- It provides a check on the arithmetical accuracy of recordings of all the financial transactions of the business.
- It helps in locating errors by providing a starting point for the location of errors committed if any.
- It provides a basis for the preparation of final accounts.
- It ensures that the transactions recorded in the books of accounts have identical debit and credit amount.
- It shows that the balance of each ledger account has been computed correctly.
- It shows that the balances of each and every ledger account have been transferred accurately and on the correct side of the sheet on which trial balance has been prepared.

The Trial Balance

- A form of a trial balance could be drawn up by listing all the accounts and adding together all the debit entries, at the same time adding all the credit entries.
- However, this is not the normal method of drawing up a TB, but it is the easiest to understand in the first instance.
- Usually the TB is the list of balances only, arranged as to whether they are debit balances or credit balances.

Sample Trial Balance

Trial balance of Ruto Gondwe as at 30th September, 2023

	Dr (K)	Cr (K)
Stock 1 October, 2022	2,368	
Carriage outwards	200	
Carriage inwards	310	
Returns inwards	205	
Returns outwards		322
Purchases	11,874	
Sales		18,600
Salaries and wages	3,862	
Rent	304	
Insurance	78	
Motor vehicle expenses	664	
Office expenses	216	
Lighting and heating expenses	166	
General expenses	314	
Premises	5,000	
Motor Vehicles	1,800	
Fixtures and fittings	350	
Debtors	3,896	
Creditors		1,731
Cash and bank	482	
Drawings	1,200	
Capital		12,636
	33,289	33,289

Financial Reporting

Financial Reporting

- **What is financial reporting?**
- Financial reporting is the *process* of *documenting* and *communicating financial activities* and *performance* of an organization over specific time periods, typically on a quarterly or yearly basis.
- A **financial statement** (or **financial report**) is a formal record of the financial activities of a business, person, or other entity.
- Relevant financial information is presented in a structured manner and in a form easy to understand.
- They typically include basic financial statements, accompanied by notes to the accounts and "a management discussion and analysis"

Financial Reporting

- What is the Management Discussions and Analysis?
- The Management Discussions and Analysis (MD&A) is a section of the annual report that provides an overview of how the company performed in the prior period(s), its current financial condition, and management's future projections and outlook.
- What is the main objective of financial reporting?
- The objective of financial reporting is **to track, analyze and report your business income**.
- The purpose of these reports is to examine resource usage, cash flow, business performance and the financial health of the business.
- This helps you and your investors make informed decisions about how to manage the business.

Importance of Financial Reporting

- **What is the importance of financial reporting?**
- Monitors income and expenses
  - Tracking income and expenses is an important process that financial reporting supports.
- Ensures compliance
  - Financial reporting encompasses specific processes that companies follow to comply with mandatory accounting regulations.
- Communicates essential data
  - Key stakeholders, executives, investors and professionals all rely on current financial data to make decisions, plan budgets and monitor performance.
- Supports financial analysis and decision-making
  - Financial reporting is crucial for performing analysis to support business decisions.
  - Using financial statements improves accountability and supports the analysis of critical financial data.

The Financial Statements

What are the main types of financial statements/reports?

There are 4 main/basic financial statements:

- A statement of financial position, formerly known as a balance sheet, reports on a company's assets, liabilities, and ownership equity at a given point in time.
- A statement of Profit or Loss and other comprehensive income; also known as a, statement of revenue & expense, P&L or profit and loss report,

Financial Statements

- The Statement of Comprehensive income reports on a company's income, expenses, and profits over a period of time.
- It provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.

- A statement of cash flows reports on a company's cash flow activities, particularly its operating, investing and financing activities.

Financial Statements

- There is a fourth statement that is also prepared showing the changes in shareholders' equity, and is called: Statement of Changes in Equity.
- Statement of Changes in Equity, often referred to as Statement of Retained Earnings; *details the change in owners' equity over an accounting period by presenting the movement in reserves comprising the shareholders' equity.*

Financial Statements

– Movement in shareholders' equity over an accounting period comprises the following elements:
  - Net profit or loss during the accounting period attributable to shareholders
  - Increase or decrease in share capital reserves
  - Dividend payments to shareholders
  - Gains and losses recognized directly in equity
  - Effect of changes in accounting policies
  - Effect of correction of prior period error

– Statement of changes in equity helps users of financial statements to identify the factors that cause a change in the owners' equity over the accounting periods.

Statement of changes in equity

- Whereas movement in shareholder reserves can be observed from the statement of financial position, statement of changes in equity discloses significant information about equity reserves that is not presented separately elsewhere in the financial statements which may be useful in understanding the nature of change in equity reserves.

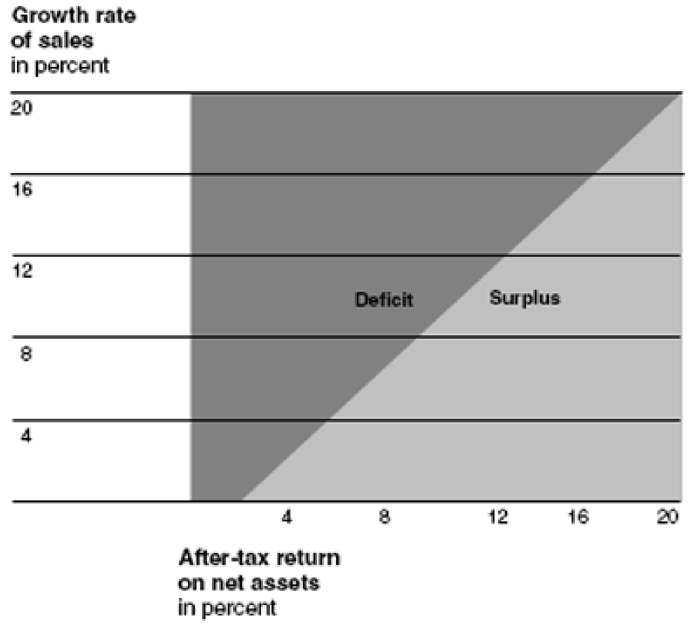
Statement of Changes in Equity

In summary:

- The statement therefore includes the change in equity reserves arising from share capital issues and redemptions, the payments of dividends, net profit or loss reported in the income statement along with any gains or losses recognized directly in equity (e.g. revaluation surplus).

Structure of financial Statements

EXHIBIT I A Balanced Financial Goals System



Source:
Gordon Donaldson, *Managing Corporate Wealth: The Operation of a Comprehensive Financial Goals System* (New York: Praeger Publishers, 1984), p. 69. Adapted with permission.

Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income for the financial year ended December 31, 2020

Description	Notes	**Current year (2020) ZMW**	Previous Year (2019) ZMW
Revenue			
Cost of goods sold (COGS)			
Gross profit			
Expenses			
Salaries and wages			
Rent and Overheads			
Depreciation and Amortisation			
Interest			
Total Expenses			
Profit before tax			
Tax			
Net Profit/(Loss)			

Statement of Financial Position

Statement of financial position as at December 31, 2020			
	Notes	**Current year (2020) ZMW**	Previous Year (2019) ZMW
Assets			
Fixed Assets			
Land and Buildings			
Plant and Machinery			
sub-total			
Current Assets			
Inventory			
Accounts Receivable			
Bank			
Cash			
Sub-total			
T**otal Assets**			
Capital and Liabilities			
Shareholders Equity			
Equity Capital			
Retained earnings			
Shareholders Equity			
Liabilities			
Long-term liabilities			
Current liabilities			
Short-term debt			
Accounts payable			
Total Current liabilities			
Total Liabilities			
Total Capital + Liabilities			

Statement of Cash Flows

Statement of Cash Flows for the financial year ended December 31, 2020			
	Notes	**Current year (2020) ZMW**	Previous Year (2019) ZMW
Operating Cash Flow			
Net Profit			
Plus: Depreciation and Amortisation			
Less: Changes in working capital			
Cash Flow from operations			
Investing Cash Flow			
Investing in Property and Equipment			
Income from disposal of assets			
Cash from Investing			
Financing Cash Flow			
Issuance (repayment) of debt			
Issuance (repayment) of equity			
Cash flow from Financing			
Net increase (decrease) in cash			
Cash and cash equivalents at the beginning of the period			
Cash and cash equivalents at the end of the period			

Statement of Changes in Shareholders' Funds

	Share capital	Retained earnings	Revaluation surplus	Total equity
	ZMW	ZMW	ZWM	**ZMW**
Balance at 1 January 2019	**100,000**	**30,000**	**-**	**130,000**
Changes in accounting policy	**-**	**-**	**-**	**-**
Correction of prior period error	**-**	**-**	**-**	**-**
Restated balance	**100,000**	**30,000**	**-**	**130,000**
Changes in equity for the year 2019				
Issue of share capital	**-**	**-**	**-**	**-**
Income for the year	**-**	25,000	**-**	**25,000**
Revaluation gain	**-**	**-**	10,000	**10,000**
Dividends	**-**	(15,000)	**-**	**(15,000)**
Balance at 31 December 2019	**100,000**	**40,000**	**10,000**	**150,000**
Changes in equity for the year 2020				
Issue of share capital	**-**	**-**	**-**	**-**
Income for the year	**-**	30,000	**-**	**30,000**
Revaluation gain	**-**	**-**	5,000	**5,000**
Dividends	**-**	(20,000)	**-**	**(20,000)**
Balance at 31 December 2020	**100,000**	**50,000**	**15,000**	**165,000**

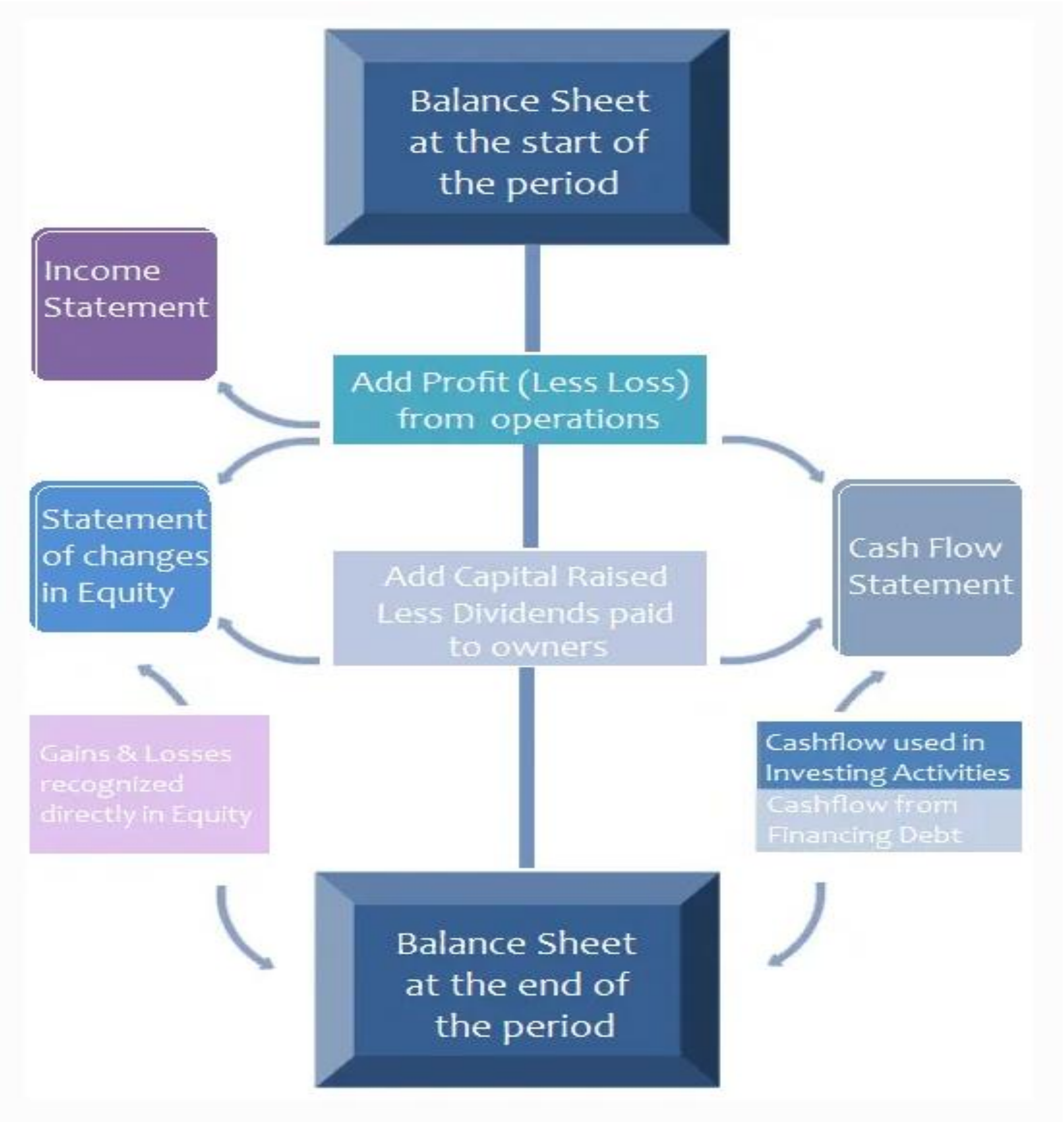
Notes to the financial statements

- Also referred to as *footnotes.*
- These provide additional information pertaining to a company's operations and financial position and are considered to be an integral part of the financial statements.
- The notes are required by the full disclosure principle.
- The full disclosure principle states that ***all information should be included in an entity's financial statements that would affect a reader's understanding of those statements.***
- *Notes to Financial Statements are supplementary details and disclosures that provide insight into a company's financial health. These notes accompany the financial statements within an annual report, supplementing and explaining the items presented in the main part of the financial statements.*

Notes to the financial statements

- What is the purpose of Notes to Financial Statements?
- Their purpose is to:
  - Offer additional information required for full disclosure according to accounting principles.
  - Present information that isn’t directly listed on the statement of financial position, income statement, or other financial reports.
  - Explain the company's accounting methods and provide detail on specific statement of financial position items.

Relationship between Financial Statements



Class Exercise – Crafting of Financial statements

Develop the Statements of P&L and Financial position from the Trial balance of Ruto Gondwe as at 30th September, 2021

	Dr (K)	Cr (K)
Stock 1 October, 2020	2,368	
Carriage outwards	200	
Carriage inwards	310	
Returns inwards	205	
Returns outwards		322
Purchases	11,874	
Sales		18,600
Salaries and wages	3,862	
Rent	304	
Insurance	78	
Motor vehicle expenses	664	
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General expenses	314	
Premises	5,000	
Motor Vehicles	1,800	
Fixtures and fittings	350	
Debtors	3,896	
Creditors		1,731
Cash and bank	482	
Drawings	1,200	
Capital		12,636
	33,289	**33,289**

Stock as at September 30, 2021 – K1,620

Financial Reporting Standards

- Financial accounting seeks objectivity – hence has rules known as concepts.
- **The Objectivity Principle** - An accounting principle that states that a company's financial information must be based on verifiable data.
  - The financial information should be unbiased and free from any kind of internal and external influence.
- What is the objective of financial reporting?
- The objective of financial reporting is to provide financial information about the reporting entity, that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.
- Financial reporting requires policy choices and estimates. These choices and estimates require judgment, which can vary from one preparer to the next.
- Accordingly, standards are needed to ensure increased consistency in these judgments.

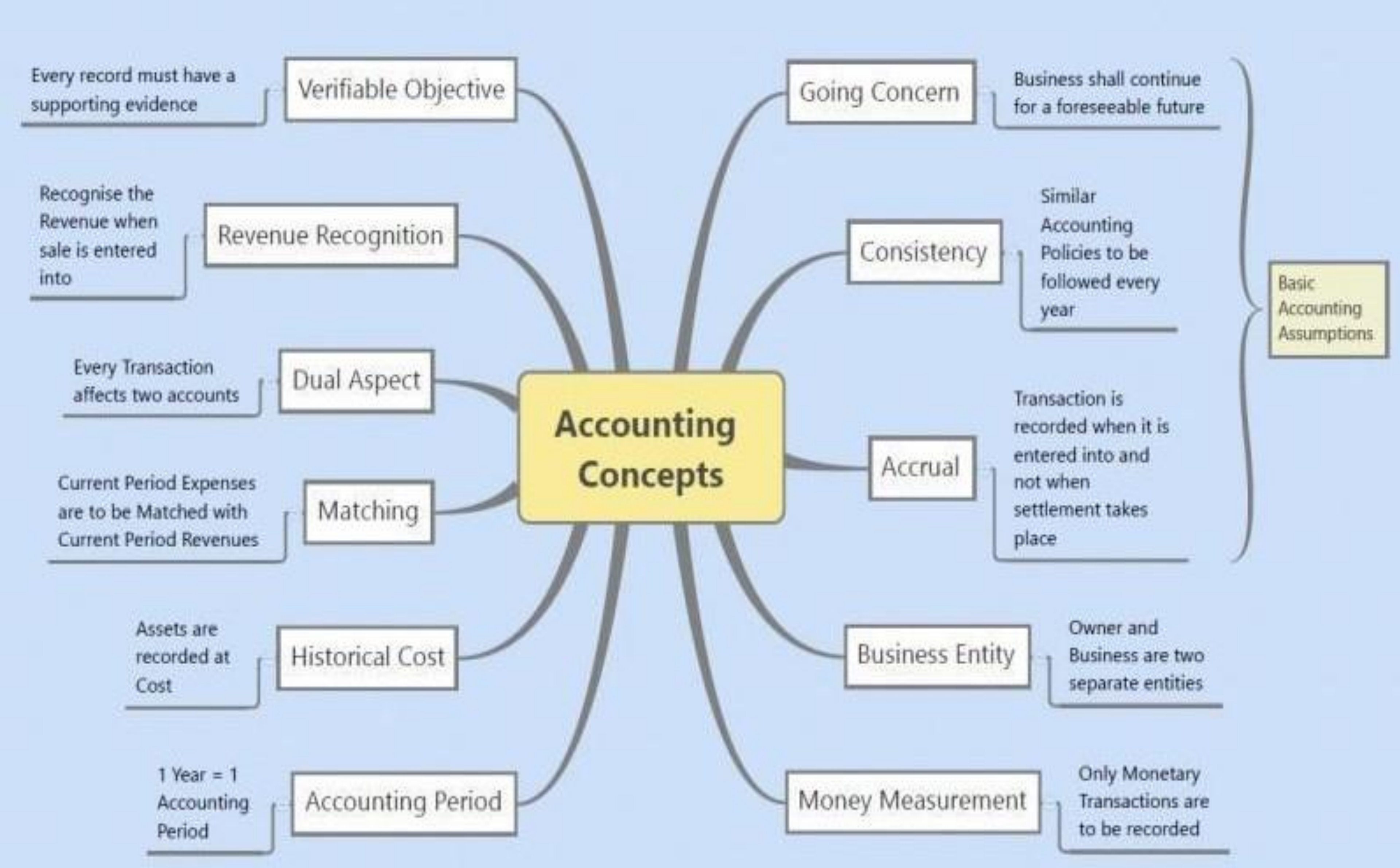
Financial Reporting Standards

- What are accounting concepts?
- Accounting concepts are the basic rules, assumptions and principles which are considered as the basis of recording of business transactions and preparing the accounts.
- What are International Financial Reporting Standards (IFRS)?
- International Financial Reporting Standards (IFRS) are a set of accounting rules for the financial statements of public companies that are intended to make them consistent, transparent, and easily comparable around the world.

Financial Reporting Standards

- The basic concepts are:
  - The cost
  - The money measurement
  - The going concern
  - The business entity
  - The realisation
  - The dual aspect
  - The accruals
  - **Overriding concepts**
    - Materiality
    - Prudence; and
    - consistency

Accounting Concepts



The 13 Basic Accounting Concepts

Basic Concepts

- **The Cost Concept** – assets are normally shown at cost price.
- **The money measurement concept** – accounting is only concerned with those facts that can be measured in monetary terms with a fair degree of objectivity.
- **The going concern concept** – accounting always assumes that the business will continue to operate for an indefinitely long period of time.

Basic Concepts

- **The business entity concept** – the transactions recorded in a firm's books are the transactions that affect the firm.
  - The accounting records are therefore limited to the firm and do not extend to the personal resources of the proprietors.
- **The realisation concept** – profit is normally regarded as being earned at the time when goods or services are passed to the customer and s/he incurs liability for them.
- **The dual aspect concept** – the two aspects of accounting; one represented by the assets of the business and the other by the claims against them. *Remember the accounting equation.*
- **The accruals concept** – profit is the difference between revenues and expenses, rather than cash receipts and expenditures, is known as the *Accruals Concept.*

Basic Concepts

Over-riding concepts

- **Materiality** – record a transaction in a certain way if its worthwhile.
  - The Materiality Principle in accounting guides the disclosure of financial information, emphasizing the importance of reporting details that could influence the decisions of stakeholders. It ensures that financial statements focus on significant data, allowing minor discrepancies to be pragmatically overlooked for clarity and relevance.
- **Prudence** – means that normally an accountant will take a figure that will understate rather than overstate the profit.
- **Consistence** – when a firm has fixed a method of the accounting treatment of an item, it will enter similar items that follow in exactly the same way.

Full Disclosure Principle

- What is the Full Disclosure Principle?
- The full disclosure principle states that *all information should be included* in an entity's *financial statements* that would *affect* a *reader's understanding* of those statements.
- The interpretation of this principle is highly judgmental, since the amount of information that can be provided is potentially massive.
- To reduce the amount of disclosure, it is customary to only disclose information about events that are likely to have a material impact on the entity's financial position or financial results.

The Users of Accounting information

Who are the users of accounting information?

- There are basically two users:
  - Internal Users of Accounting information; and
  - External users of accounting information
- Each one of these have their own needs.

The Users of Accounting information

Who are the External users of accounting information?

These are:

- people outside the business entity (organization) who use accounting information.
- Examples of external users are:
  - suppliers, banks, customers, investors, potential investors, and tax authorities.

The Users of Accounting information

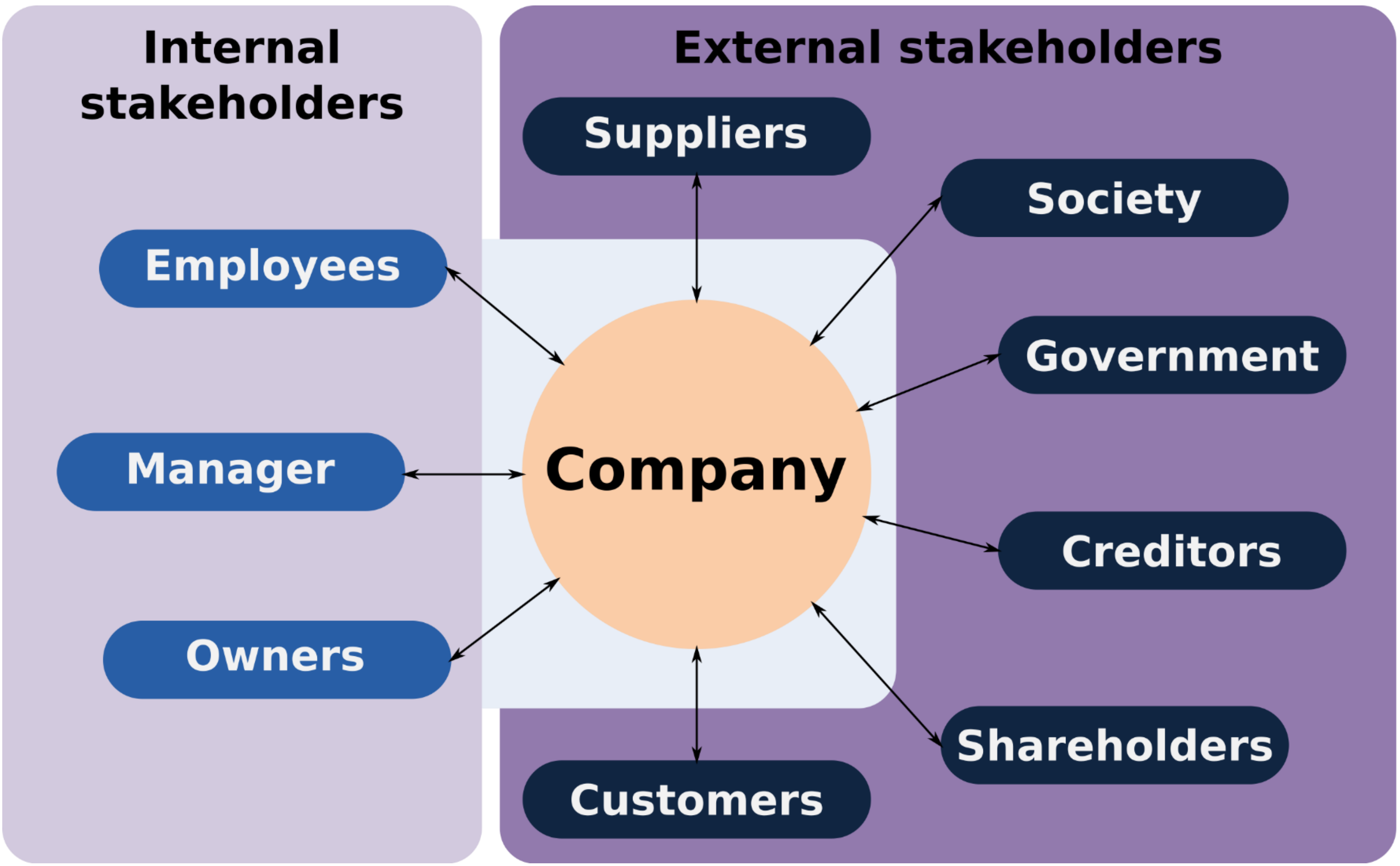
Who are the internal users of accounting information?

- These are:
- Internal users are people within a business organization who use financial information.
  - Owners;
  - Board of directors,
  - Internal auditors;
  - Managers; and
  - employees

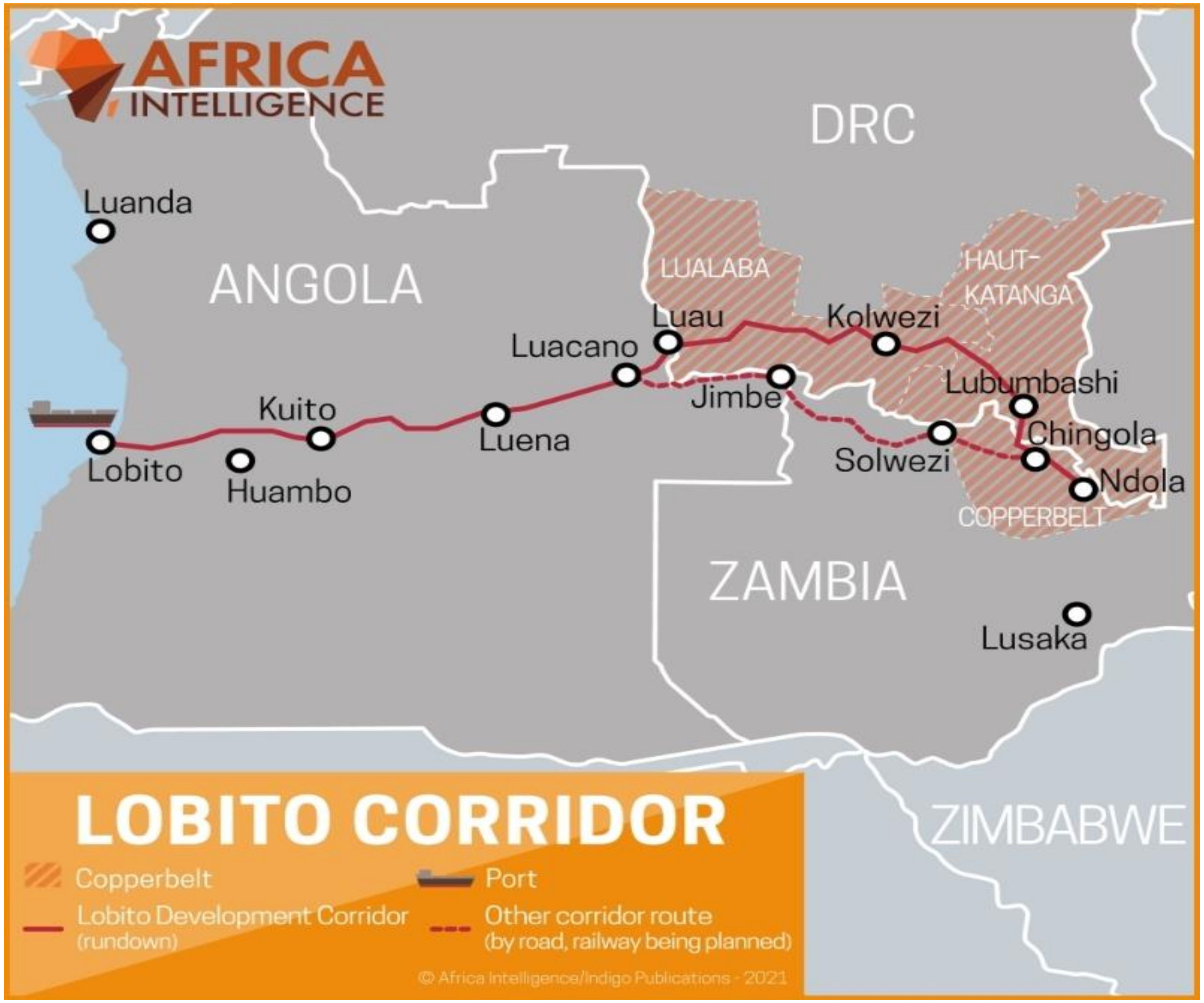
The Users of Accounting information

- What is a stakeholder?
- In business, a stakeholder is any individual, group, or party that has an interest in an organization and the outcomes of its actions.
- All company stakeholders are the users of the company's financial information.
- **Internal stakeholders** refer to the individuals and parties, within the organization.
- **External stakeholders** represent outside parties, which affect or get affected by, the business activities.

A Company’s Stakeholders



Conclusion


AFRICA INTELLIGENCE
DRC
Luanda
ANGOLA
LUALABA
HAUT-KATANGA
Luau
Kolwezi
Luacano
Jimbe
Lubumbashi
Kuito
Luena
Chingola
Solwezi
Lobito
Huambo
Ndola
COPPERBELT
ZAMBIA
Lusaka
LOBITO CORRIDOR
ZIMBABWE
Copperbelt
Port
Lobito Development Corridor (rundown)
Other corridor route (by road, railway being planned)
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Conclusion

Objectives of Accounting are:

- **Recording** - The fundamental role of accounting is to maintain a systematic, complete, accurate and permanent record of all transactions of a business which could be retrieved and reviewed whenever necessary.
- **Planning** - Organizations need to plan how they intend to allocate their limited resources (e.g. cash, labour, materials, machinery and equipment) towards competing needs in the future. An effective way of doing so is by using various forms of budgets.
- **Decision making** - Accounting helps managers in making a range of business decisions and developing policies to make the organizational processes more efficient.

Conclusion

- **Financing** - Accounting information is necessary in securing finance. Whether an organization applies for a bank loan or an investment by shareholders, it will be required to provide historic financial record (e.g. profit or loss for past five years) as well as financial projections (e.g. forecast sales for the next 3 years).
- **Control** - One of the key objectives of an accounting system is to place sufficient internal controls within an organization for the safeguarding of its valuable resources. Assets of a business (e.g. cash, buildings, inventory, etc.) are susceptible to losses arising from theft, fraud, error, obsolescence, damage and mismanagement.

Conclusion

- **Financial Performance** - Accountancy helps in determining how well a business is performing by summarizing the financial information into quantifiable measures (e.g. sales revenue, profit, expenses, etc.).
- **Position** - Financial statements show the financial position of a business. Financial position reflects the financial condition of a business at that time.
- **Liquidity** - Mismanagement of cash is often the reason for failure in many businesses. Accounting helps businesses in determining how much cash and other liquid resources are at its disposal to pay for its financial commitments.

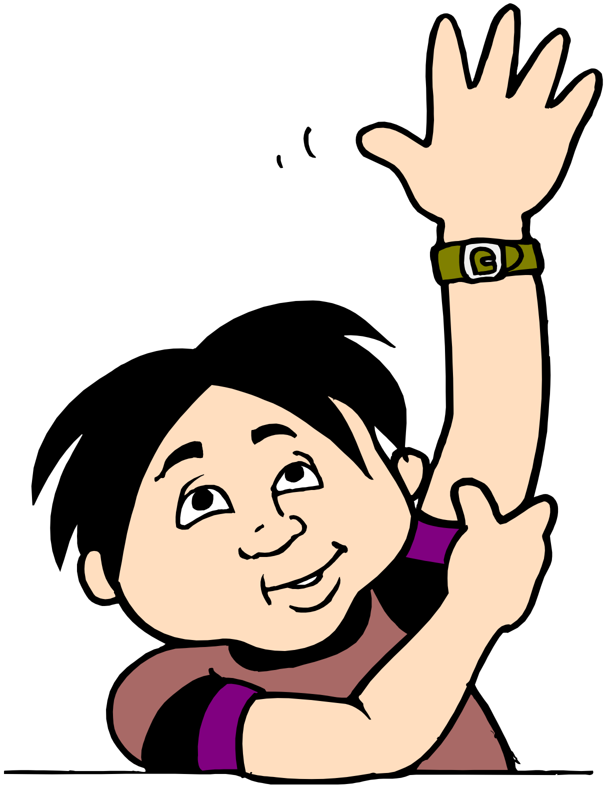
Conclusion

- What is Liquidity?
- Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price.
- The most liquid asset of all is cash itself.
- The more liquid an asset is, the easier and more efficient it is to turn it back into cash.
- Less liquid assets take more time and may have a higher cost to turn it into cash.

Conclusion

- **Accountability** - Accounting provides a basis for performance assessment of a business over a period of time which promotes accountability across several tiers of an organization.
- **Legal** - Accounting is a legal requirement for most businesses. Law requires businesses to maintain an accurate financial record of their transactions and to report their financial results to shareholders, tax authorities and regulators.
- **Users** - Role of accounting is not just limited to the information needs of employees and investors of a business. Accounting nowadays fulfils the information needs for a diverse group of stakeholders each with its own information requirement

Introduction to Accountancy



- The End