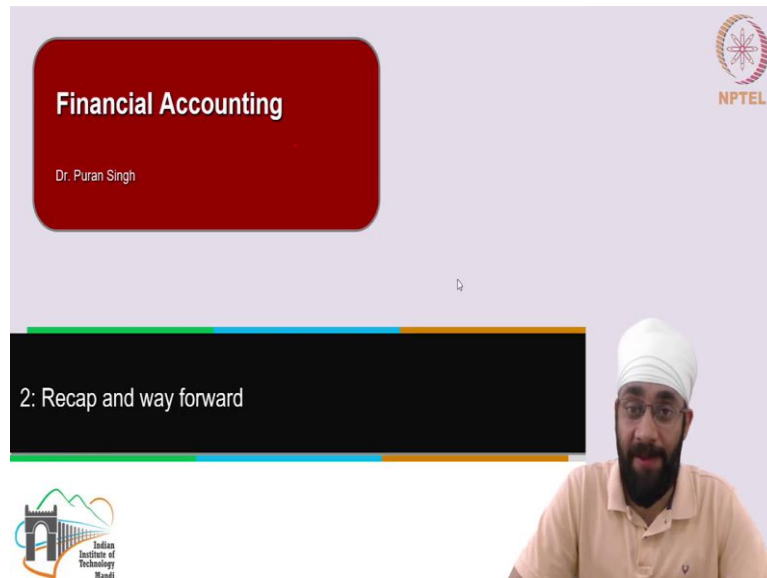


Financial Accounting
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Lecture -14
2.0 Recap and way forward

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The image shows a video lecture interface. At the top left, a red rounded rectangle contains the text "Financial Accounting" in white, with "Dr. Puran Singh" in smaller white text below it. In the top right corner, there is a circular logo with a gear-like pattern and the text "NPTEL" below it. The main content area is a black horizontal bar with the text "2: Recap and way forward" in white. In the bottom left corner, there is a logo for "Indian Institute of Technology Mandi" featuring a stylized building and the text "Indian Institute of Technology Mandi". In the bottom right corner, there is a video feed of a man with a beard and glasses, wearing a white turban and a light-colored shirt.

Hi, I hope you are finding the world of accounting and finance to be exciting. And, if you have developed interest in this subject, you must have developed an understanding of the ecosystem in which accounting functions. You must also be excited to know what comes next. Let me quickly recap the learnings till now and give you a preview of things to come.

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The slide features a title 'What you should know by now?' in red text at the top left. Below the title is a list of five items, each preceded by a red checkmark: 'Company form of business', 'Assets, Liabilities, Incomes and Expenses', 'Accounting equation', 'Financial Statements: Balance Sheet and Income Statement', and 'Generally Accepted Accounting Principles'. The words 'Balance Sheet' and 'Income Statement' in the fourth item are underlined in red. In the top right corner, there are two logos: one for 'Indian Institute of Technology Bombay' and another for 'NPTEL'. In the bottom right corner, there is a video inset showing a man with a beard and glasses, wearing a white turban and a light-colored shirt, speaking.

By now you should be familiar with the company form of business. A company, when operates, engages in its daily business, it does many transactions with multiple parties that result in the creation of assets, liabilities, incomes and expenses. These four terms are related to each other by way of accounting equation. There is a foreground to the accounting equation, where we say assets are equal to liabilities and then, we say liabilities are a function of how incomes and expenses are matched because profits feed into the liability side of the accounting equation. We also said that any item resulting from a transaction can be categorized into one of these four terms: assets, liabilities, incomes and expenses.

Then, we took a walk-through of the financial statements of Reliance Industries Limited. So, you are familiarized with the formats of balance sheet and income statement and I established your faith in what I am teaching you in the categorizations of asset, liability, income, and expenses by showing them in the Reliance Industry Limited's balance sheet and income statement. And then, we looked at some generally accepted accounting principles which are followed by the companies to prepare balance sheets and income statements.

So, by now, you should have a clear understanding, a very good understanding of what financial statements look like, not everything about the statements, but what they look like and what are the principles that guide the preparation of these statements. And in the statements, what these terms are- assets, liabilities, income, expenses and their further subcategories. If you know this much till now, you are safe.

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What is next?

How are the numbers in Balance Sheet and Income statement arrived at?

How are transactions written in the books of Accounting?

What scientific method is used for recording the transactions?

The slide also features the logos of the Indian Institute of Technology Madras and NPTEL in the top right corner. A video inset in the bottom right shows a man with a beard and glasses wearing a white turban and a light-colored shirt.

Let us move forward. Next we need to understand that the numbers in the balance sheet and income statements are calculated using a scientific method. We need to know how? What is that method using which you arrive at the numbers which are then finally shown in the balance sheet and income statement?

So, we need to know how daily transactions, every transaction happening in the business contributes to creating a number in the income statement or the balance sheet, how does that happen? Hundreds and thousands of transactions take place in a given day. How do you write that? How do you maintain records of all these transactions? In order to do that, we are going to learn a scientific method called Double Entry System, which is used to record the transactions that lead to creating the terms called asset, liability, income, and expenses in the two financial statements that we have.

So, let us get started on this.