

Financial Accounting
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Lecture – 50
5.0 Recap and way forward

Hi there! Congratulations on completing another step in the accounting cycle process.

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What you should know by now?

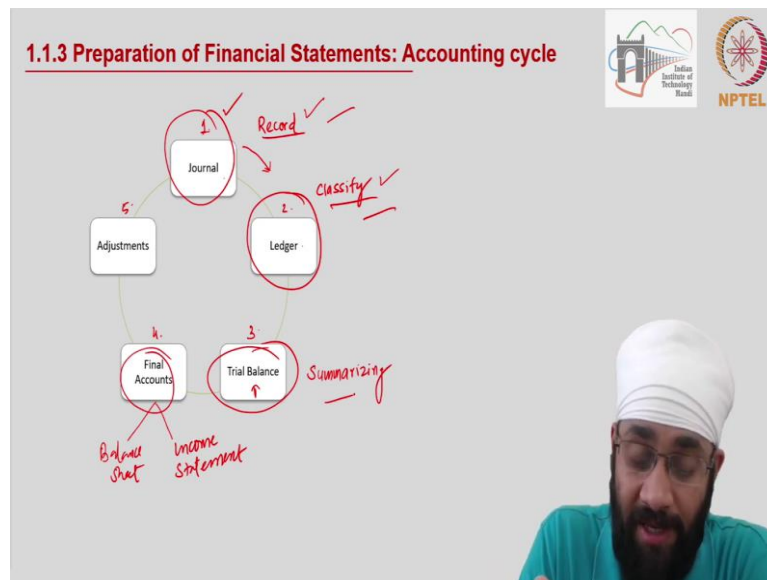
- ✓ Recording the transactions in Journal ✓
- ✓ Classifying the transactions in Ledger ✓
- ✓ Summarizing the transactions in Trial Balance ✓

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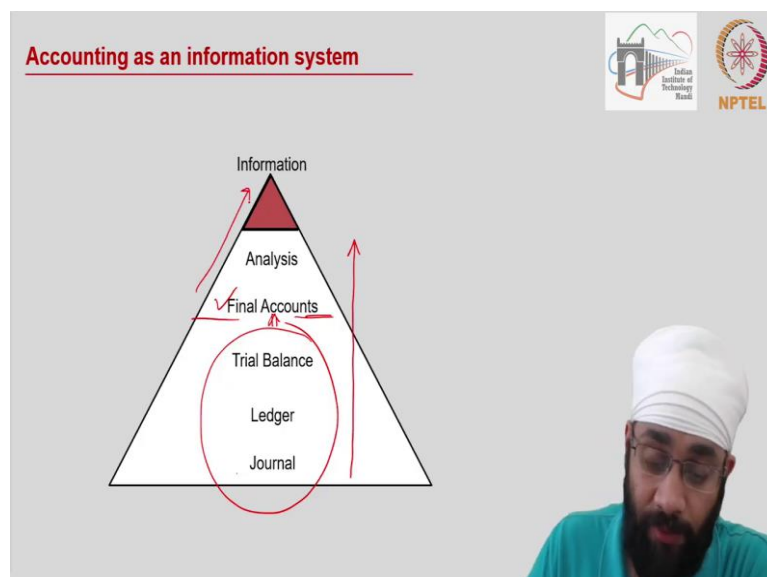
Now, you are very well aware of the first three steps in the accounting cycle which are recording, classifying, and summarizing the transactions. You should know about the journal, ledger and trial balance. These 3 books of accounts lead us to the next step of accounting, which is the final accounts.

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The final accounts have 2 components: balance sheet and income statement. You are no stranger to these two statements, because I have already given you a tour of the final accounts of Reliance Industries Limited. Now is the time for us to use the information recorded and classified and summarized till now. Using this information we are going to prepare the balance sheet and income statement of a company.

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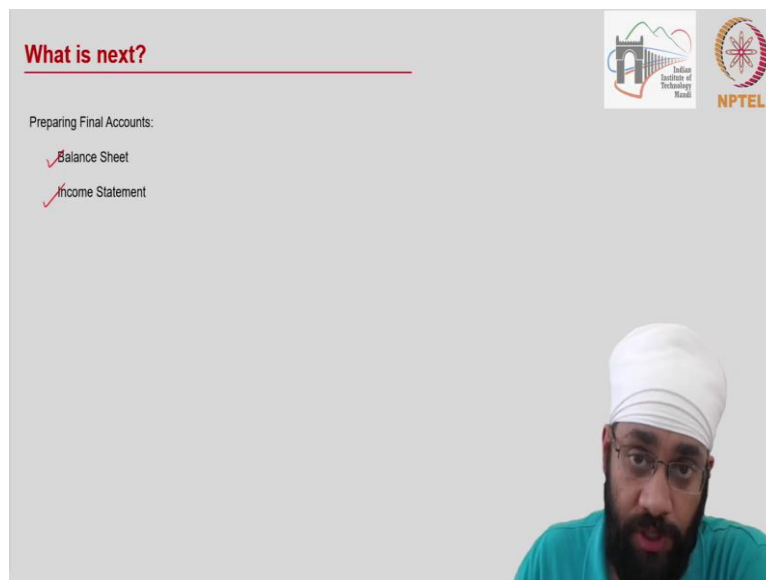


So, let us move forward with that. I would also like to tell you that as we move along the steps in the accounting cycle, we are also moving up this ladder of information system. We discussed

earlier that accounting works or functions as an information system for the stakeholders. The journal, ledger, and trial balance are three internal books of accounts. These books are not disclosed or published or are to be viewed by the public. But the outcome of this process, which is the final accounts- the balance sheet and income statement - these are the statements which are going to be disclosed.

So, we have arrived at this juncture. We are halfway through this pyramid and very soon we are going to be talking about how to convert data into information.

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What is next?

Preparing Final Accounts:

- ✓ Balance Sheet
- ✓ Income Statement

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So, we will look at these two statements and we are going to take again the same example, which we have been using throughout the accounting cycle: the 14 transactions and using that we will prepare the balance sheet and income statement.

Let us meet in the next video where we will talk about the preparation of the balance sheet and income statement.