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**SUBJECT: PRINCIPLES OF ACCOUNTING**

**DEPARTMENT: BBA (2ND SEMESTER)**

**SECTION: A**

**SUBMITTED TO: SIR QUAID IQBAL**

**What I have learned till now is;**

**1) current assets and fixed assets**

**2) how to make a balance sheet**

**3) cash flow statement**

**4) income statement**

**5) Rules of debit and credit**

**6) use of financial data and their purposes**

**1) CURRENT ASSETS:**

**Current assets** are those which are used within a year. They are also called **short term assets.**

**EXAMPLES:**

1. Cash
2. Office supplies
3. Accounts receivable
4. Short-term investments etc.

**FIXED ASSETS:**

Fixed assets are those which are used more than a year. They are also called long term assets.

**Examples:**

1. Land
2. Building
3. Vehicles
4. Equipments etc.

**CASH FLOW STATEMENT:**

In many cases, while a transaction occurs it is not recorded on the income statement. In such cases it is put in the statement of cash flow.

**For Example:**

A loan that is taken and kept aside for a later use. This statement records this cash as transaction.

**INCOME STATEMENT:**

Income statement is also called profit and loss statement. This statement has accounts of revenues and expenses. Expenses are subtracted from the total revenues and result in Profit/loss.

This report shows the total amount of sales, all costs incurred in achieving them and other operating costs.

**Rules of Debit and Credit:**

The financial transactions result in increasing or decreasing the values of various individual accounts in the ledger. The following **rules of debit and credit** are applied to record these increases or decreases in individual ledger accounts.

**Rules for Asset Accounts:**

[Assets](https://www.playaccounting.com/explanation/exp-oa/assets/) are recorded on the debit side of the account. Any increase to an asset is recorded on the debit side and any decrease is recorded on the credit side of its account. For example, the amount of cash in hand at the first day of the [accounting period](https://www.playaccounting.com/accounting-terms/ctd-a/accounting-period/) is recorded on the debit side of cash in hand account. Whenever an amount of cash is received, an entry is made on the debit side of cash in hand account. Whenever an amount of cash is paid out, an entry is made on the credit side of cash in hand account.

**Rules for Liability Accounts:**

[Liabilities](https://www.playaccounting.com/explanation/lc-exp/liabilities/) are recorded on the credit side of the liability accounts. Any increase in liability is recorded on the credit side and any decrease is recorded on the debit side of a liability account. For example, the amount payable to United Traders on the first day of the accounting period is recorded on the credit side of the United Traders Account.

If more goods are bought from United Traders (thereby incurring an additional liability to United Traders), an entry would be made on the credit side of United Traders Account. If an amount is paid to United Traders (thereby reducing the liability to United Traders), an entry is made on the debit side of United Traders Account.

**Rules for Capital Accounts:**

[Capital](https://www.playaccounting.com/accounting-terms/c/capital/) is recorded on the credit side of an account. Any increase is also recorded on the credit side. Any decrease is recorded on the debit side of the respective capital account. For example, the amount of capital of Mr. Tom on the first day of the accounting period will be shown on the credit side of Tom’s Capital Account.

If he introduces any additional capital, an entry will be made on the credit side of his capital account. If he takes any money or goods from the [business](https://www.playaccounting.com/accounting-terms/b/business/) for his personal use that will reduce his capital and therefore an entry will be made on the debit side of his account.

Notice that the rules of debit and credit for asset accounts are exactly opposite to the rules of debit and credit for liability and capital accounts.

**Rules for Expense Accounts:**

An expense is a loss and therefore results in a decrease in capital. Since a decrease in capital is recorded on the debit side of an account, all expenses are also recorded on the debit side of the relevant account. Hence, when salaries is paid to workers, we make an entry on the debit side of salaries account. Usually, but not always, there will be no entries made on the credit side of the accounts kept for expenses.

**Rules for Income or Revenue Accounts:**

An income or [revenue](https://www.playaccounting.com/explanation/exp-fs/revenue/) results in an increase of capital. Since increases in capital are recorded on the credit side of capital account, all incomes are also recorded on the credit side of the relevant account. Hence, when we receive any rent from a tenant, we make an entry on the credit side on the rent income account. Usually, but not always, there will be no entries made on the debit side of the accounts kept for incomes and revenue.

**Financial Statements** represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company. Financial Statements reflect the financial effects of business transactions and events on the entity.

## Four Types of Financial Statements

The four main types of financial statements are:

**1. Statement of Financial Position**

**2. Income Statement**

**3. Cash Flow Statement**

**4. Statement of Changes in Equity**

**This is what I have learned so far.**