Basic Accounting

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Table of Contents

Module A: Introduction

IBB Syllabus for Module A: Book-Keeping and Accounting. Purpose, Nature, Uses and Users of Accounting, Accounting Principles, Standards and Regulations, Forms of Business Organizations, Accounting Systems, Assets, Liabilities and Owners Equity.

Contents of this Chapter
Accounting
Functions of Accounting
Purpose of Accounting
Nature of Accounting
Uses and Users of Accounting
Accounting Principles
Basic Concepts of Accounting (Recording Stage)
Accounting Standards and Regulations
Forms of Business Organizations and Accounting
Accounting Systems
Assets, Liabilities, and Owners' Equity
Accounting: An Integral Part of Business
Relationship of Accounting with Other Subjects
Difference Between Book-Keeping and Accounting
Methods of Accounting
Evolution of Accounting
Branches of Accounting
Challenges Faced by the Accounting Profession Today
Role of Ethics in Accounting
Synonyms for Accounting Terminologies
Limitations of Accounting
Concept Check Questions

Introduction

Accounting

Accounting is the process of recording, classifying, summarizing, and interpreting financial transactions and events of a business or organization. It involves identifying, measuring, and communicating financial information to stakeholders, such as investors, creditors, and management, to help them make informed decisions about the organization's performance and future prospects.

Functions of accounting

The basic functions of accounting include:

1. **Recording financial transactions**: The first step in the accounting process is to record all financial transactions in a systematic manner.
2. **Classifying financial transactions**: After recording, the transactions are classified into various categories, such as assets, liabilities, income, and expenses.
3. **Summarizing financial transactions**: Once the transactions are classified, they are summarized in financial statements such as balance sheets, income statements, and cash flow statements.
4. **Interpreting financial transactions**: Finally, financial statements are analysed and interpreted to draw meaningful insights about the financial health and performance of the organization.

Accounting plays a crucial role in business decision-making, financial planning, and tax compliance. It helps businesses keep track of their financial performance, identify areas of improvement, and make informed decisions based on financial data.

Purposes of Accounting

The purposes of accounting are multifaceted and include the following:

1. **Financial Reporting**: One of the primary purposes of accounting is to provide financial information to stakeholders, including investors, creditors, regulators, and the public. This information is presented in the form of financial statements, such as balance sheets, income statements, and cash flow statements, which reflect the organization's financial health and performance.

2. **Decision-Making**: Accounting information is also used by management to make informed decisions about the organization's operations, investments, and financing activities. This information helps in identifying areas of strengths and weaknesses, setting goals and objectives, and evaluating the effectiveness of strategies and tactics.
3. **Compliance:** Accounting plays a critical role in ensuring compliance with legal and regulatory requirements, such as tax laws, financial reporting standards, and labour laws. Accurate accounting records are necessary to meet the legal obligations and avoid penalties, fines, and legal actions.
4. **Performance Evaluation:** Accounting information is used to evaluate the performance of the organization, departments, and individual employees. Financial performance metrics, such as profitability ratios, liquidity ratios, and efficiency ratios, are calculated to assess how well the organization is utilizing its resources and generating profits.
5. **Planning and Budgeting:** Accounting information is used to develop budgets and forecast future financial outcomes. The budgets provide a roadmap for allocating resources and measuring performance, while the forecasts help in anticipating potential risks and opportunities.

In summary, the purposes of accounting are diverse and critical to the success of any organization. Accounting information is used to inform decision-making, comply with legal requirements, evaluate performance, and plan for the future.

Nature of Accounting

Accounting is the process of recording, classifying, summarizing, and interpreting financial transactions and events of a business entity to provide meaningful information for decision making.

The nature of accounting is characterized by the following features:

1) **Objectivity:** Accounting should be based on factual and verifiable data. It requires an unbiased and neutral approach to ensure that the financial information provided is reliable and accurate.

2) **Relevance:** Accounting information should be relevant to the needs of the users. The information should be useful in making business decisions, such as investment, financing, and operational decisions.

3) **Timeliness:** Accounting information should be timely to be useful. Delayed information can lead to inaccurate decision making, so the accounting process should be prompt and efficient.

4) **Completeness:** Accounting information should cover all relevant aspects of a transaction or event to provide a complete picture of the financial situation of the business.

5) **Comparability:** Accounting information should be presented in a way that allows for easy comparison with other periods, companies, or industries. This helps users to evaluate the financial performance and position of the business.

6) **Consistency:** Accounting information should be presented in a consistent manner over time, to enable meaningful comparison between different periods.

7) **Materiality:** Accounting information should focus on material transactions and events that have a significant impact on the financial position of the business.

In summary, accounting is a process of providing reliable, relevant, and timely financial information that can be used by stakeholders to make informed decisions. The nature of accounting is characterized by objectivity, relevance, timeliness, completeness, comparability, consistency, and materiality.

The Uses and Users of Accounting

Accounting information is used by both internal and external stakeholders for various purposes. Here are some examples of both internal and external users of accounting information:

***Internal Users*:**

1) **Management:** Managers use accounting information to make informed decisions about the organization's operations, investments, and strategies. They rely on financial reports such as income statements, balance sheets, and cash flow statements to analyse the organization's financial performance and identify areas for improvement.

2) **Employees:** Employees may use accounting information to understand the financial health of the organization and make decisions about their job security, benefits, and compensation.
3) **Owners**: Business owners use accounting information to track the profitability of the organization and make informed decisions about investments, expansions, and divestitures.

External Users:

1) **Investors:** Investors use accounting information to assess the organization's financial health and make decisions about investing in the organization's stocks, bonds, or other securities.
2) **Creditors**: Creditors use accounting information to assess the organization's creditworthiness and make decisions about lending money to the organization.
3) **Government agencies**: Government agencies use accounting information to ensure that the organization is complying with tax laws, labor laws, and other regulatory requirements.
4) **Customers**: Customers may use accounting information to assess the financial stability and reputation of the organization before engaging in business transactions.
5) **Suppliers:** Suppliers may use accounting information to assess the financial stability of the organization before entering into contracts or extending credit.
6) **Competitors**: Competitors may use accounting information to assess the strengths and weaknesses of the organization and inform their own strategic decisions.

In summary, the uses and users of accounting are diverse and include both internal and external stakeholders. Accounting information is critical for decision-making purposes for both internal and external users, and the accuracy and reliability of accounting information are essential for making informed decisions and ensuring the financial health of the organization.

Accounting Principles

Accounting principles refer to a set of guidelines and standards that help businesses record, classify, and report financial information accurately and consistently. These principles provide a framework for accounting practices and ensure that financial statements are reliable and meaningful to users.

Some of the key accounting principles include:

1) **Matching Principle**: This principle requires that expenses should be matched with the revenues they help to generate. This means that the cost of goods sold and other expenses incurred in generating revenue should be recorded in the same period as the revenue they helped to produce.

2) **Revenue Recognition Principle**: According to this principle, revenue should be recognized when it is earned, regardless of when payment is received. This means that businesses should record revenue in their financial statements as soon as they have fulfilled their obligations to their customers.
3) **Historical Cost Principle**: This principle requires that assets be recorded at their original purchase price or cost. This means that the value of an asset on a company's balance sheet is its historical cost, not its current market value.
4) **Full Disclosure Principle:** This principle requires that businesses provide all relevant information about their financial statements to users. This includes information about significant accounting policies, contingencies, and other relevant information that could impact financial performance.
5) **Going Concern Principle**: This principle assumes that a business will continue to operate for the foreseeable future. This means that financial statements should be prepared under the assumption that the business will continue to operate unless there is evidence to suggest otherwise.
6) **The Accrual Principle**: This principle states that revenue and expenses should be recognized when they are earned or incurred, not when the cash is received or paid out. This means that a business should record revenue when it is earned, regardless of whether the customer has paid yet, and record expenses when they are incurred, regardless of whether the business has paid for them yet.
7) **The Cost Principle**: This principle states that assets should be recorded at their original cost, rather than their current market value. This means that a business should record the cost of an asset when it is acquired, and not adjust the value based on changes in the asset's market value over time.
8) **The Consistency Principle**: This principle states that a business should use the same accounting methods and principles from one accounting period to the next. This ensures that financial statements are comparable over time, which makes it easier for investors and other stakeholders to analyze a business's financial performance.
9) **The Conservatism Principle**: This principle states that a business should be conservative in its accounting practices, and should anticipate losses and expenses rather than assuming the best possible outcome. This means that a business should record expenses and losses as soon as they are likely to occur, but should only record gains and revenues when they are certain to occur.

These principles are just a few examples of the many accounting principles that businesses use to record and report financial information. By following these principles, businesses can ensure that their financial statements are accurate, reliable, and consistent over time, which helps investors and other stakeholders make informed decisions about the health and future prospects of the business.

Basic Concepts of Accounting

Basic concepts of Accounting at the recording stage

At the recording stage, there are several basic concepts of accounting that are essential for accurate and reliable financial reporting. These concepts include:

1) **Business Entity**: This concept states that the financial transactions of a business must be kept separate from the personal finances of the owner(s). The business is treated as a separate legal entity for accounting purposes, and its financial statements reflect only the financial activities of the business.
2) **Money Measurement**: This concept states that only financial transactions that can be expressed in monetary terms should be recorded in the accounting records. Non-financial transactions, such as goodwill or employee morale, are not recorded.
3) **Objective Evidence**: This concept requires that all financial transactions must be supported by objective evidence, such as invoices, receipts, bank statements, or contracts. This evidence serves as proof of the transaction and ensures the accuracy of the financial records.
4) **Historical Record**: This concept requires that financial transactions must be recorded based on their historical cost, rather than their current value. This means that assets are recorded at their original purchase price, and liabilities are recorded at the amount owed at the time of the transaction.
5) **Cost:** This concept states that assets should be recorded at their original cost, and this cost should be used to value the asset on the balance sheet. This concept also requires that expenses should be recorded in the period in which they are incurred, regardless of when the payment is made.
6) **Dual Aspect:** This concept states that every financial transaction has two aspects – a debit and a credit. The total debits must always equal the total credits, which is known as the accounting equation. This equation is Assets = Liabilities + Equity, and it must always balance.

These basic concepts of accounting are essential for accurate and reliable financial reporting. They ensure that financial transactions are recorded properly, and the resulting financial statements reflect the true financial position and performance of the business.

Basic Concepts of Accounting at the reporting stage are:

1) **Going concern concept**: This concept assumes that the business entity will continue to operate indefinitely, and its assets will be used to generate revenue in the future. As a result, financial statements are prepared on the assumption that the entity will continue to operate in the foreseeable future, and its assets will not be sold or liquidated.
2) **Accounting period concept**: This concept requires that the financial performance of an entity be reported for a specific period of time, such as a month, quarter, or year. It ensures that the financial statements represent a clear picture of the entity's financial position and performance over a specific period, making it easier to compare with other periods.
3) **Matching concept**: This concept requires that expenses be recorded in the same period as the revenues they help to generate. It ensures that the financial statements accurately reflect the expenses incurred in generating the revenue for the period.
4) **Conservatism concept**: This concept requires that losses and expenses should be recognized as soon as they are reasonably expected, but profits should be recognized only when they are realized. This ensures that the financial statements do not overstate the entity's financial position or performance.
5) **Full disclosure concept**: This concept requires that all relevant financial information be disclosed in the financial statements. It ensures that the users of the financial statements have access to all necessary information to make informed decisions.
6) **Consistency concept**: This concept requires that accounting methods and principles be consistent from one period to another. It ensures that the financial statements are comparable over time.
7) **Materiality concept**: This concept requires that only significant transactions and events be reported in the financial statements. It ensures that the financial statements are not cluttered with insignificant details, making it easier for users to understand the essential financial information.

Accounting Standards and Regulations

Accounting standards and regulations are a set of guidelines and rules that govern how financial information is recorded, prepared, and reported by companies and organizations. These standards are designed to ensure transparency, accuracy, and consistency in financial reporting, which is essential for investors, creditors, and other stakeholders to make informed decisions.

In Bangladesh, accounting standards and regulations are primarily governed by the Institute of Chartered Accountants of Bangladesh (ICAB) and the Securities and Exchange Commission (SEC). The ICAB is responsible for issuing and revising accounting standards, while the SEC regulates financial reporting and disclosure requirements for publicly listed companies. IASs adopted by the ICAB are known as BAS and the IFRSs adopted by the ICAB are known as BFRS.

In addition to these accounting standards, there are also various regulations that apply to financial reporting in Bangladesh. For example, the Companies Act 1994 requires all companies to prepare and file annual financial statements, while the Securities and Exchange Ordinance 1969 requires publicly listed companies to disclose information on their financial performance, operations, and management.

Overall, accounting standards and regulations play a critical role in ensuring the accuracy and reliability of financial reporting in Bangladesh and other countries around the world. Compliance with these standards is essential for maintaining public trust in the financial system and promoting sustainable economic growth.

Adoption Status of International Accounting Standards (IAS) by ICAB as on 1 January 2020.

IAS No.	IAS Title	IAS Effective Date	Remarks
IAS1	Presentation of Financial Statements	on or after 1 Jan 2020	
IAS2	Inventories	on or after 1 January 2020	
IAS7	Statement of Cash Flows	on or after 1 January 2020	
IAS8	Accounting Policies, Changes in Accounting Estimates and Errors	on or after 1 January 2020	
IAS10	Events after the Reporting Period	on or after 1 January 2020	
IAS12	Income Taxes	on or after 1 January 2020	
IAS16	Property, Plant and Equipment	on or after 1 January 2020	
IAS19	Employee Benefits	on or after 1 January 2020	
IAS20	Accounting for Government Grants and Disclosure of Government Assistance	on or after 1 January 2020	

IAS21	The Effects of Changes in Foreign Exchange Rates	on or after 1 January 2020	
IAS23	Borrowing Costs	on or after 1 January 2020	
IAS24	Related Party Disclosures	on or after 1 January 2020	
IAS26	Accounting and Reporting by Retirement Benefit Plans	on or after 1 January 2020	
IAS27	Separate Financial Statements	on or after 1 January 2020	
IAS28	Investments in Associates and Joint Ventures	on or after 1 January 2020	
IAS29	Financial Reporting in Hyperinflationary Economies	on or after 1 January 2020	
IAS32	Financial Instruments: Presentation	on or after 1 January 2020	
IAS33	Earnings per Share	on or after 1 January 2020	
IAS 34	Interim Financial Reporting	on or after 1 January 2020	
IAS36	Impairment of Assets	on or after 1 January 2020	
IAS37	Provisions, Contingent Liabilities and Contingent Assets	on or after 1 January 2020	
IAS38	Intangible Assets	on or after 1 January 2020	
IAS39	Financial Instruments: Recognition and Measurement	on or after 1 January 2020	
IAS40	Investment Property	on or after 1st January 2020	
IAS41	Agriculture	on or after 1 January 2020	

(Source: Compiled based on https://www.icab.org.bd/page/ias-ifrs-2020)

Adoption Status of International Financial Reporting Standards (IFRS) by ICAB as International Financial Reporting Standards (IFRS) as on 1 January 2020.

IFRS / IFRS	Title	Effective Date on or after
IFRS 1	First-time adoption of International financial Reporting Standards	1 January 2020
IFRS 2	Share-based Payment	1 January 2020
IFRS 3	Business Combinations	1 January 2020
IFRS 4	Insurance Contracts	1 January 2020

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2020
IFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020
IFRS 7	Financial Instruments: Disclosures	1 January 2020
IFRS 8	Operating Segments	1 January 2020
IFRS 9	Financial Instruments	1 January 2020
IFRS 10	Consolidated Financial Statements	1 January 2020
IFRS 11	Joint Arrangements	1 January 2020
IFRS 12	Disclosure of Interests in other Entities	1 January 2020
IFRS 13	Fair Value Measurement	1 January 2020
IFRS 14	Regulatory Defferal Accounts	1 January 2020
IFRS 15	Revenue From Contracts With Customers	1 January 2020
IFRS 16	Leases	1 January 2020
IFRS 17	Insurance Contracts	

(Source: Compiled based on https://www.icab.org.bd/page/ias-ifrs-2020)

Adoption Status of International Financial Reporting Interpretations Committee (IFRIC) Interpretations by ICAB as on 1 January 2020.

IFRIC	Title	Effective Date on or after
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 January 2020
IFRIC 2	Members' Shares in Co- operative Entities and Similar Instruments	1 January 2020
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2020
IFRIC 6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment	1 January 2020
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 January 2020
IFRIC 10	Interim Financial Reporting and Impairment	1 January 2020
IFRIC 12	Service Concession Arrangements	1 January 2020

IFRIC 14	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2020
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 January 2020
IFRIC 17	Distributions of Non-- cash Assets to Owners	1 January 2020
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020
IFRIC 21	Levies	1 January 2020

(Source: Compiled based on https://www.icab.org.bd/page/ias-ifrs-2020)

Forms of Business Organisations and their Accounting Systems

Forms of Business Organizations refer to the different types of legal structures that a business can adopt. In Bangladesh, there are primarily four forms of business organizations, namely Sole Proprietorship, Partnership, Limited Liability Company, and Public Limited Company. Each of these forms has its own accounting systems and requirements.

Sole Proprietorship:

In a Sole Proprietorship, the business is owned and operated by a single person. As such, the accounting system is straightforward, and the proprietor is responsible for maintaining accurate records of all financial transactions related to the business. The proprietor can use a cash or accrual accounting method, depending on the size and nature of the business. In Bangladesh, Sole Proprietorship is a popular form of business organization, particularly in the small and medium-sized sector.

Partnership:

In a Partnership, two or more people come together to operate a business. The accounting system for a Partnership is similar to that of a Sole Proprietorship. However, additional records must be maintained to keep track of each partner's share in the profits or losses. The Partnership must file an income tax return, and each partner must report their share of income on their individual tax returns. In Bangladesh, Partnerships are popular in the service sector, such as law firms and accounting firms.

Limited Liability Company (LLC):

An LLC is a legal entity that is separate from its owners. The accounting system for an LLC is more complex than that of a Sole Proprietorship or Partnership, and the LLC must follow Generally Accepted Accounting Principles (GAAP). The LLC must maintain accurate records of all financial transactions, including income, expenses, assets, and liabilities. In Bangladesh, LLCs are popular in the manufacturing and service sectors.

Public Limited Company (PLC):

A PLC is a company whose shares are publicly traded on the stock exchange. The accounting system for a PLC is even more complex than that of an LLC, and the company must follow International Financial Reporting Standards (IFRS). The PLC must maintain detailed financial records and prepare financial statements, including income statements, balance sheets, and cash flow statements. In Bangladesh, PLCs are few in number and are mostly found in the banking and telecommunication sectors.

Other forms of business may include Non-Governmental Organization (NGO): NGOs are non-profit organizations that work towards social and humanitarian causes. NGOs are not allowed to distribute profits to their members, but they can generate revenue through donations, grants, or services provided. NGOs are required to file annual financial statements with the NGO Affairs Bureau.

In terms of accounting, each type of business organization has its own requirements for financial reporting and compliance. Business owners should seek professional advice to ensure they are meeting all legal and financial obligations. In conclusion, the form of business organization a company chooses determines the accounting system and requirements it must follow. Accounting records and financial statements are essential for the smooth operation of a business and for compliance with legal and tax requirements. In Bangladesh, businesses are encouraged to maintain accurate accounting records and comply with legal and regulatory requirements to promote transparency and accountability in the business environment.

Accounting systems

Accounting systems refer to the processes, procedures, and software used by businesses to manage their financial transactions, records, and reports. These systems are critical for businesses of all sizes because they help maintain accurate financial records, ensure compliance with regulations, and provide essential data for decision-making purposes.

There are different types of accounting systems, including manual and computerized systems. Manual accounting systems involve recording transactions by hand in journals, ledgers, and spreadsheets. In contrast, computerized accounting systems use accounting software to automate many accounting tasks, such as recording transactions, generating invoices, and producing financial statements.

Computerized accounting systems offer several advantages over manual systems. They can save time and increase efficiency by automating routine tasks and reducing the risk of errors. They also provide real-time access to financial data, which is essential for making timely and informed decisions.

Common features of computerized accounting systems include:

1) General ledger: The central repository of financial data that records all transactions, including sales, purchases, receipts, and payments.
2) Accounts payable: The module used to track and manage the money owed to suppliers and vendors.
3) Accounts receivable: The module used to track and manage the money owed by customers.
4) Inventory management: The module used to track inventory levels, costs, and sales.
5) Payroll: The module used to calculate and manage employee salaries, taxes, and benefits.
6) Reporting: The ability to generate financial reports, such as balance sheets, income statements, and cash flow statements.

When choosing an accounting system, businesses should consider factors such as the size of their operations, their budget, and their specific accounting needs. Some businesses may prefer a cloud-based accounting system that allows them to access their financial data from anywhere, while others may require a more robust system with advanced features.

In summary, accounting systems play a crucial role in managing the financial operations of a business. They provide accurate and timely financial information, which is essential for making informed decisions and ensuring regulatory compliance. With the right accounting system in place, businesses can streamline their financial processes, save time, and increase efficiency.

Assets, Liabilities, and Owners' Equity

Assets, liabilities, and owners' equity are the three main components of a company's balance sheet. These items represent a company's financial position at a given point in time, and are critical in determining the company's solvency and financial health. Understanding these items and their classifications is important for analysing a company's financial statements from the sources of funds and uses of funds perspectives.

Assets are resources that a company owns or controls, and which have a future economic value. Assets can be classified as current or non-current. Current assets are those that are expected to be converted into cash within a year, such as cash, accounts receivable, and inventory. Non-current assets are those that have a useful life of more than a year, such as property, plant, and equipment.

Liabilities are obligations that a company owes to external parties, such as suppliers, lenders, and tax authorities. Liabilities can be classified as current or non-current. Current liabilities are those that are due within a year, such as accounts payable, short-term loans, and taxes payable. Non-current liabilities are those that are due more than a year from the balance sheet date, such as long-term loans and deferred tax liabilities.

Owners' equity represents the residual interest in the assets of a company after liabilities are deducted. It is the owners' claim on the company's assets and represents the value of the business to its owners. Owners' equity can be further classified into contributed capital, retained earnings, and accumulated other comprehensive income.

From the sources of funds perspective, assets represent the sources of a company's funds, as they can be used to generate revenues and profits. For example, a company can use its cash reserves to invest in new projects or expand its operations, which can result in increased revenues and profits. Liabilities, on the other hand, represent the uses of funds, as they are the obligations that a company must fulfil. For example, a company may need to take out loans to finance its operations, which represents a use of funds.

From the uses of funds perspective, assets represent the company's investments, as they are the resources that a company uses to generate revenues and profits. Liabilities, on the other hand, represent the sources of funds, as they provide the company with the capital it needs to make these investments. Owners' equity represents the residual value of the assets after liabilities are deducted, and thus represents the value of the company to its owners.

In summary, assets, liabilities, and owners' equity are critical components of a company's financial statements. Understanding the classifications and usefulness of these items from both the sources of funds and uses of funds perspectives is important for analysing a company's financial position and performance.

Accounting – An Integral Part of Business

Accounting is an integral part of any business as it helps to keep track of the financial health of the organization. It involves the systematic recording, analysing, and reporting of financial transactions of a company.

In other words, accounting is the language of business because it helps businesses communicate their financial information in a standardized and uniform way. This financial information includes the company's assets, liabilities, revenues, expenses, and profits, which are communicated through financial statements such as the balance sheet, income statement, and cash flow statement.

Just like how we use language to convey our thoughts and ideas, businesses use accounting to communicate their financial performance to stakeholders such as investors, creditors, and government agencies. This financial information is crucial for decision-making, as it provides insight into the company's financial health and helps stakeholders evaluate the company's potential for growth and profitability.

In summary, accounting is an essential part of any business as it helps to keep track of financial transactions and communicate financial information in a standardized way. It is the language of business, as it enables companies to communicate their financial performance to stakeholders in a clear and concise manner.

Relationship of Accounting with other subjects

Accounting is a field that has a close relationship with several other subjects/disciplines. Some of the key disciplines that are closely related to accounting include:

1) Finance: Finance is closely related to accounting because both fields deal with financial information. While accounting focuses on the recording, analyzing, and reporting of financial transactions, finance deals with the management of financial resources to achieve the company's financial objectives.
2) Economics: Economics provides the theoretical basis for understanding the financial transactions that accounting records. Accounting provides financial data that can be used to inform economic analysis, such as the evaluation of a company's financial performance or the analysis of market trends.

3) Business management: Accounting plays a critical role in business management as it provides financial information that managers need to make informed decisions. Accounting data is used to develop budgets, track expenses, evaluate investment opportunities, and make strategic decisions.
4) Mathematics and Statistics: Accounting uses mathematical and statistical methods to analyse financial data. These methods are used to measure financial performance, forecast future trends, and evaluate the risks associated with business decisions.
5) Law: Accounting and law are closely related because accounting data is used to comply with legal requirements such as tax regulations, financial reporting standards, and labour laws.

In summary, accounting is a field that is closely related to several other disciplines. It uses concepts and techniques from finance, economics, business management, mathematics and statistics, and law to record, analyse, and report financial transactions. The integration of these disciplines is crucial for understanding the financial performance of a company and making informed business decisions.

Difference between Book-keeping and Accounting

Bookkeeping and accounting are two distinct functions that are related to the financial management of a business. While they are often used interchangeably, there are some key differences between bookkeeping and accounting.

Bookkeeping involves the recording and maintaining of financial transactions on a day-to-day basis. It is the process of recording all financial transactions, including purchases, sales, receipts, and payments, in a systematic manner. Bookkeeping is often done using software or spreadsheets and involves tasks such as recording transactions, reconciling accounts, and preparing invoices.

On the other hand, accounting involves analysing, interpreting, and summarizing financial data to provide meaningful information to business owners and stakeholders. Accounting involves taking the information recorded by bookkeepers and using it to create financial reports such as balance sheets, income statements, and cash flow statements. Accounting also involves interpreting the financial information to make decisions about the future of the business.

The main differences between bookkeeping and accounting:

	Bookkeeping	**Accounting**
Definition	Recording and maintaining financial transactions on a day-to-day basis.	Analysing, interpreting, and summarizing financial data to provide meaningful information to business owners and stakeholders.

Function	Involves the recording of financial transactions in a systematic manner.	Involves analysing financial data to create financial reports and inform decision-making.
Tasks	Recording transactions, reconciling accounts, preparing invoices, managing accounts payable and receivable.	Creating financial statements, analysing financial data, interpreting financial information, forecasting, budgeting, and advising on financial matters.
Focus	Focuses on the details of financial transactions.	Focuses on the big picture of the company's financial performance.
Importance	Important for keeping accurate records and ensuring compliance with tax and legal requirements.	Important for decision-making, assessing profitability, and planning for the future.
Frequency	Ongoing, day-to-day task.	Usually periodic or done at the end of an accounting period.

In summary, bookkeeping is the process of recording financial transactions while accounting involves analysing, interpreting, and summarizing financial data to provide meaningful information to stakeholders. While bookkeeping is a crucial component of accounting, accounting involves a more comprehensive analysis of financial data and is used to inform decision-making.

Methods of Accounting

There are two main methods of accounting that businesses can use: cash basis accounting and accrual basis accounting. Here's an overview of each method:

1) **Cash Basis Accounting**: This method of accounting recognizes income and expenses when they are received or paid, respectively. In other words, transactions are recorded only when cash changes hands. Cash basis accounting is simple and straightforward, making it ideal for small businesses with few transactions. However, it does not provide an accurate picture of a company's financial performance as it does not account for transactions that have not yet been paid.
2) **Accrual Basis Accounting**: This method of accounting recognizes income and expenses when they are earned or incurred, regardless of whether cash has changed hands. This means that revenue is recorded when it is earned, even if payment has not been received, and expenses are recorded when they are incurred, even if they have not been paid. Accrual basis accounting provides a more accurate picture of a company's financial performance as it takes into account all transactions, whether they have been paid or not.

In addition to these two methods, there are also specialized methods of accounting used in certain industries. For example, businesses in the construction industry may use the percentage of completion method, which recognizes revenue and expenses based on the percentage of a project that has been completed. Similarly, businesses that hold inventory may use the inventory valuation method, which determines the value of inventory based on its cost or market value.

It's important to note that the method of accounting a business uses can have a significant impact on its financial statements and tax liability. As such, it's important for businesses to carefully consider which method is most appropriate for their needs and consult with a qualified accountant if necessary.

Evolution of Accounting

The evolution of accounting can be traced back to ancient civilizations such as Mesopotamia, Egypt, and Greece, where rudimentary forms of record-keeping and bookkeeping were practiced. Over time, accounting has evolved to meet the changing needs of businesses and society.

In the 15th century, the development of double-entry bookkeeping, which was introduced by Italian mathematician Luca Pacioli, revolutionized the way businesses kept their financial records. This system provided a more accurate way to record transactions and helped to prevent fraud and errors.

During the industrial revolution in the 18th and 19th centuries, the rise of large-scale businesses and the need for more sophisticated financial reporting led to the development of managerial accounting. This branch of accounting focuses on providing information to managers for decision-making purposes.

In the 20th century, accounting became more standardized and regulated with the introduction of generally accepted accounting principles (GAAP) in the United States and international financial reporting standards (IFRS) globally. These standards help ensure consistency and transparency in financial reporting.

More recently, advancements in technology have enabled the automation of many accounting tasks, such as data entry and financial analysis. This has led to the development of new branches of accounting such as forensic accounting, which involves investigating financial fraud and white-collar crime using technology and data analysis.

Branches of Accounting

There are several branches of accounting that can be classified based on the type of data they handle and the purpose they serve. Here are some of the main branches of accounting:

1) **Financial Accounting**: This branch of accounting deals with the preparation and reporting of financial statements for external stakeholders, such as investors, lenders, and regulators. The primary objective of financial accounting is to provide information about an organization's financial performance and position to those who are interested in making investment or lending decisions.
2) **Management Accounting**: This branch of accounting is concerned with the use of financial and non-financial information to support the management decision-making process. Management accounting provides managers with information that helps them plan, control, and evaluate the performance of an organization.
3) **Cost Accounting**: This branch of accounting deals with the identification, measurement, and analysis of the costs associated with producing goods and services. Cost accounting provides information that helps managers make decisions about pricing, product mix, and cost control.
4) **Tax Accounting**: This branch of accounting deals with the preparation and filing of tax returns for individuals and businesses. Tax accountants are responsible for ensuring compliance with tax laws and regulations, minimizing tax liabilities, and maximizing tax benefits.
5) **Auditing:** This branch of accounting involves the independent examination of an organization's financial statements to provide assurance that they are presented fairly and in accordance with accounting standards. Auditors are responsible for evaluating the adequacy of internal controls, identifying fraud and errors, and providing recommendations for improvement.
6) **Forensic Accounting:** This branch of accounting involves the use of accounting, auditing, and investigative skills to detect and prevent financial fraud and white-collar crime. Forensic accountants are often called upon to investigate financial irregularities, such as embezzlement, money laundering, and securities fraud.

Overall, accounting is a broad field that encompasses many different areas of specialization, and professionals in each branch of accounting play an essential role in helping organizations achieve their financial goals.

Challenges faced by Accounting Profession Today

The accounting profession faces several challenges in today's business environment. Some of these challenges include:

1) **Technological advancements**: The emergence of new technologies is rapidly changing the accounting profession. While technology can improve efficiency, accuracy, and productivity, it also requires accountants to continuously learn and adapt to new systems and software.
2) **Globalization:** The global economy has created new challenges for accountants, such as dealing with international regulations, currency exchange rates, and tax laws.
3) **Regulatory compliance:** As governments and regulatory bodies increase their focus on financial reporting, accountants face pressure to ensure compliance with new regulations and standards.
4) **Ethics and integrity:** Maintaining ethical standards and integrity in the accounting profession has become a significant challenge, as the consequences of unethical behaviour can damage both individual careers and the profession as a whole.
5) **Talent retention**: Attracting and retaining talented individuals in the accounting profession has become increasingly challenging due to competition from other industries, as well as changing attitudes toward work-life balance and job security.
6) **Diversification of services**: Clients now demand more than traditional accounting services, such as auditing and tax preparation. To stay competitive, accounting firms must diversify their services to include consulting, financial planning, and other advisory services.
7) **Changing demographics**: The accounting profession is facing a shortage of talent as many baby boomers retire, and younger generations have different work expectations and preferences.
8) **Data management and cyber security:** With the increasing use of technology in accounting, there is a growing need for accountants to manage and secure large volumes of data, which presents new challenges for cyber security and data privacy.

Role of Ethics in Accounting

Ethics play a critical role in accounting practices as they help to ensure the accuracy, reliability, and integrity of financial reporting. Accounting professionals are responsible for maintaining the highest standards of ethics in their work, which includes adhering to ethical codes and principles, such as objectivity, confidentiality, and professional behaviour. Failure to follow ethical principles can result in financial scandals, loss of trust, legal penalties, and damage to the reputation of both the individual accountant and the profession as a whole.

Ethics in accounting also involve transparency and accountability in financial reporting, ensuring that the financial statements accurately reflect the financial position of the organization. Additionally, ethical accounting practices help to promote social responsibility by requiring businesses to report on their impact on the environment, their employees, and society at large.

In summary, ethics play a crucial role in accounting practices by promoting accuracy, transparency, accountability, and social responsibility in financial reporting. Accounting professionals must uphold ethical principles to maintain trust and integrity in the financial system.

Some Synonyms for Accounting Terminologies

Profit and loss account	Income statement (statement of comprehensive income)
Profit and loss reserve (in balance sheet)	Accumulated profits
Balance sheet	Statement of financial position
Turnover	Revenue
Debtor account	Accounts receivable
Debtors (e.g. debtors have increased)	Receivables
Debtor	Customer
Creditor account	Accounts payable
Creditors (e.g. creditors have increased)	Payables
Creditor	Supplier
Stock	Inventory
Fixed asset	Non-current asset (generally). Tangible fixed assets are also referred to as ‘property, plant and equipment’.
Long term liability	Non-current liability
Provision (e.g. for depreciation)	Allowance (you will sometimes see ‘provision’ used too).
Nominal ledger	General ledger
VAT	Consumption tax
Debentures	Loan notes
Preference shares/dividends	Preferred stock/dividends
Cash flow statement	Statement of cash flows

Limitations of Accounting

While accounting is an essential tool for tracking financial transactions and providing insights into a company's financial health, it also has some limitations. Here are some of the limitations of accounting:

1) **Historical data:** Accounting records only historical data, which means that it cannot predict the future financial performance of a company. It provides insights into the past financial performance of the company, but it cannot guarantee future profitability.
2) **Subjectivity:** Accounting involves subjective judgment, which can lead to bias and errors. For example, the valuation of assets and liabilities can vary depending on the accounting method used, and different accountants may have different interpretations of the same financial data.
3) **Lack of qualitative data**: Accounting is primarily focused on quantitative data, such as revenues, expenses, and profits. It does not capture qualitative data, such as customer satisfaction, employee morale, and market trends, which can also impact a company's financial performance.
4) **Limited scope:** Accounting only covers financial transactions that can be measured in monetary terms. It does not take into account non-monetary factors, such as social and environmental impacts.
5) **Compliance-driven**: Accounting is often compliance-driven, with companies focusing on meeting regulatory requirements rather than using financial data to drive strategic decision-making.

Concept Check Questions

1) What is accounting and why is it important? Or what is accounting, and what are its basic functions?
2) What are the purposes of accounting, and what are its primary uses?
3) What are the two main methods of accounting, and how did the evolution of accounting change over time?
4) What are the key principles of accounting and how do they guide accounting practices?
5) Who are the users of accounting information, and what decisions can they make based on it?
6) How does accounting help stakeholders evaluate a company's potential for growth and profitability?
7) Why is accounting considered an integral part of /Language of business?
8) What are assets, liabilities, and owners' equity, and why are they important components of a company's balance sheet?
9) How are assets, liabilities, and owners' equity classified, and what do they represent from both the sources of funds and uses of funds perspectives?
10) What are some of the key disciplines that are closely related to accounting?
11) What are the different types of accounting and how do they differ?
12) How do technology and automation impact accounting practices?
13) What are the financial statements used in accounting, and what information do they communicate?
14) What are some of the challenges facing the accounting profession today?
15) What role do ethics play in accounting practices?
16) What are the limitations of accounting?

Module B: Processing and Recording of Accounting Information

IBB Syllabus for Module B: Transaction, Analysis of Transaction, Recording of Transaction, Purpose of Double Entry System, Golden Rules of Debit and Credit of Transactions, Journals, Ledgers (T accounts) Types of Ledgers, Trial Balance, Cash book, Types of Cash Book (Single Column, Double Column & Triple Column Cash Book) Suspense Accounts, Reflection of Accounting Errors, Adjusting Entries & Closing Entries, Accrued and Deferred Revenue Expenses, Accounting Cycle, Depreciation, Provision and Reserves

Contents of this Chapter
Introduction
Transaction
Difference between events and economic events/transactions in accounting
Systems of book-keeping
Purpose of Double Entry System of Book-keeping
Account
Classification of accounts in accounting
Golden Rules of Debit and Credit for different Types of Transactions
Steps in the Recording Process
Analysis of Transactions
Recording of Transaction
Journal
Types of Journal in Accounting
Forms of Journals
Transaction of different types and Journalising thereof
Ledger
Forms of Ledger Accounts
Importance of Ledger
Posting to the ledger
Trial Balance

Steps involved in preparing a Trial Balance
Advantages of Trial Balance
Limitations of a Trial Balance
Errors in accounting that can be detected in the trial balance
Practical Problems: Transaction Analysis, Journal, Ledger and Trial Balance
Accounting for Fixed Assets
Determining the cost of plant assets
Depreciation Methods for Plant Assets
Straight-Line Depreciation Method
Units-of-Activity Depreciation Method
Declining-Balance Depreciation Method
Choosing the Appropriate Depreciation Method
Practical Problems
Revising Periodic Depreciation for XYZ Ltd.
Account for the Disposal of Plant Assets
Retirement of Plant Assets
Practical Problems: Accounting For Fixed Assets
Accrual versus Cash-Basis Accounting
Recognizing Revenues and Expenses
The Need for Adjusting Entries
Types of Adjusting Entries
Prepare Adjusting Entries for Deferrals
Prepare Adjusting Entries for Accruals
The Nature and Purpose of an Adjusted Trial Balance
Preparing the Adjusted Trial Balance
Short Questions

Module B: Processing and Recording of Accounting Information

Introduction

Accounting is the process of recording, classifying, and summarizing financial ***transaction*s** to provide information that is useful in making business decisions. The information generated from accounting plays a crucial role in the success of any business, whether it is small, medium or large.

Processing and recording of accounting information involves the systematic process of gathering, analysing, and summarizing financial data from various sources such as bank statements, invoices, receipts, and other financial documents. This process is aimed at generating reliable and accurate financial information that can be used for decision-making purposes. The processing and recording of accounting information is a critical aspect of any business, and it requires careful attention to detail and adherence to accounting principles and standards to ensure accuracy and reliability in financial reporting.

Transaction

A transaction or an economic event refers to any activity that affects the financial position of a company or organization. Transactions are recorded in the accounting system to provide an accurate record of the company's financial activities. Examples of transactions or economic events from an accounting perspective include:

- **Sales:** When a company sells goods or services to a customer, it is considered a transaction. The revenue from the sale is recorded in the accounting system.
- **Purchases:** When a company purchases goods or services from a supplier, it is considered a transaction. The cost of the purchase is recorded in the accounting system.
- **Payments:** When a company pays for goods or services that it has purchased, it is considered a transaction. The payment is recorded in the accounting system.
- **Receipts:** When a company receives payment for goods or services that it has sold, it is considered a transaction. The receipt is recorded in the accounting system.
- **Investments:** When a company invests money in stocks, bonds, or other assets, it is considered a transaction. The value of the investment is recorded in the accounting system.
- **Loans:** When a company borrows money from a bank or other lender, it is considered a transaction. The amount of the loan is recorded in the accounting system.

- **Depreciation:** When a company uses fixed assets, such as equipment or buildings, over time, the value of those assets decreases. This decrease in value is called depreciation, and it is recorded in the accounting system.
- **Salary and wages:** When a company pays its employees for their work, it is considered a transaction. The amount of the salary or wages is recorded in the accounting system.

Overall, any activity that involves money or assets can be considered a transaction or an economic event from an accounting perspective.

Two conditions for an economic event to be considered a transaction:

1. **Change in financial position**: A transaction involves a change in the financial position of an entity, such as an increase or decrease in assets, liabilities, or equity.
2. **Measurability in terms of money**: The change in financial position resulting from the transaction must be measurable in terms of money or its equivalent.

Here are examples of transactions in Taka:

- Purchase of goods on credit: A company purchases goods from a supplier on credit for Taka 50,000. This transaction results in an increase in the company's inventory by Taka 50,000 and an increase in its accounts payable by the same amount.
- Payment of salary to employees: A company pays salaries to its employees for Taka 100,000. This transaction results in a decrease in the company's cash balance by Taka 100,000 and a decrease in its retained earnings (or an increase in its expenses) by the same amount.

Difference between events and economic events/transactions in accounting

In accounting, events refer to any occurrence that takes place within the company or its environment, while economic events specifically refer to events that involve a change in the financial position of the company.

Here are some key differences between events and economic events in accounting:

1. **Definition:** Events can be financial or non-financial and may or may not have an impact on the financial records. Economic events, on the other hand, involve a change in the financial position of the company and are specifically related to the exchange of goods, services, or money.

2. **Recording:** Events may or may not be recorded in the financial records, while economic events are always recorded in the company's financial statements.
3. **Measurement:** Events may or may not be measurable in terms of money or its equivalent, while economic events must be measurable in terms of money or its equivalent.
4. **Purpose**: The purpose of recording events in accounting is to understand the company's performance and make strategic decisions, while the purpose of recording economic events is to measure the financial performance of the company.
5. **Examples:** Examples of events may include changes in management, technological advancements, or natural disasters, while examples of economic events may include sales of goods or services, purchase of inventory, or payment of salaries.

In summary, while events can be financial or non-financial and may or may not have an impact on the financial records, economic events specifically involve a change in the financial position of the company and are always recorded in the financial statements.

Systems of book-keeping

There are two main systems of bookkeeping, namely:

1. **Single-entry system:** This system is a simple method of bookkeeping, primarily used by small businesses or sole proprietors. It involves maintaining a record of all transactions in a single account, such as a cash book, which tracks all cash receipts and payments. Other accounts, such as accounts receivable and accounts payable, may also be maintained. However, the single-entry system does not provide an accurate representation of the financial position of the entity since it does not provide a complete record of all transactions.
2. **Double-entry system**: This system is a more complex method of bookkeeping that involves recording each transaction in at least two accounts, namely a debit account and a corresponding credit account. The double-entry system ensures that every transaction is recorded twice, once as a debit and once as a credit, ensuring that the accounting equation (assets = liabilities + equity) is always in balance. This system provides a more accurate representation of the financial position of the entity since it provides a complete record of all transactions.

In the *double-entry system*, each transaction affects two or more accounts, and each account is classified into one of five categories: assets, liabilities, equity, revenue, or expenses. These categories form the basis of the chart of accounts, which is a list of all the accounts used by an entity to record its financial transactions. The double-entry system is the most widely used bookkeeping system by businesses of all sizes and is essential for preparing accurate financial statements.

The *purpose of a double-entry accounting system* is to ensure the accuracy and completeness of financial records. In a double-entry system, every financial transaction is recorded in two accounts: a debit account and a credit account. This means that every transaction has two equal and opposite effects on the accounting equation, which must balance.

The double-entry system is important because it helps to minimize errors and fraud in financial records. It also provides a clear and complete picture of a company's financial health, by ensuring that all transactions are accurately recorded and tracked.

In addition, the double-entry system allows for the creation of financial statements such as the balance sheet, income statement, and cash flow statement. These statements are essential for making informed business decisions, as they provide a snapshot of a company's financial performance over a specific period of time.

Overall, the double-entry system is an essential tool for any business or organization that wants to maintain accurate financial records and make informed financial decisions.

Double-entry system (Summary)
• Each transaction must affect two or more accounts to keep the basic accounting equation in balance. • Recording done by debiting at least one account and crediting at least one other account. • DEBITS must equal CREDITS.

Purpose of Double Entry System of Book-keeping

The purpose of the double entry system of bookkeeping is to provide a systematic and reliable way of recording financial transactions of a business. The double entry system ensures accuracy and completeness of financial records by requiring every transaction to be recorded in two or more accounts, thereby balancing the debits and credits.

The main **purposes of the double entry system** of bookkeeping are:

1. Accuracy: By recording every transaction in two or more accounts, the double entry system ensures that the financial records are accurate and free from errors.
2. Completeness: The system ensures that every transaction is recorded and accounted for, leaving no room for omissions or oversights.
3. Accountability: The double entry system enables the business owner to track and monitor the flow of money and other assets within the business. This enhances accountability and helps prevent fraud.
4. Analysis: The system enables the owner to analyse the financial health of the business by providing accurate and detailed records of income, expenses, assets, and liabilities.
5. Facilitation of decision making: With accurate financial records, the business owner can make informed decisions regarding the future of the business, such as investment, expansion, or downsizing.

   Overall, the double entry system of bookkeeping is an essential tool for any business seeking to maintain accurate financial records, comply with regulatory requirements, and make informed decisions.

Account

An account is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.

In accounting, an account refers to a record or a category that is used to track and summarize financial transactions related to a particular type of asset, liability, revenue, expense, equity, or other financial activity. Each account has a unique name and is represented in the general ledger, which is the central repository of a company's accounting records. For example, a company might have separate accounts for cash, accounts receivable, accounts payable, inventory, sales, salaries and wages, rent, and so on. These accounts allow the company to organize and monitor its financial transactions, prepare financial statements, and make informed decisions about its operations and financial position. The classification of accounts into different categories is called a chart of accounts.

Classification of accounts in accounting

In accounting, accounts can be classified into several categories based on their nature and purpose. Here are the most common classifications of accounts:

1. **Asset Accounts**: These are accounts that represent resources owned by a company that have economic value and are expected to provide future benefits. Examples include cash, accounts receivable, inventory, and property, plant, and equipment.
2. **Liability Accounts**: These are accounts that represent obligations owed by a company to other parties, such as suppliers, lenders, or employees. Examples include accounts payable, loans payable, and salaries payable.
3. **Equity Accounts**: These are accounts that represent the residual interest in the assets of a company after deducting liabilities. Examples include common stock, retained earnings, and dividends.
4. **Revenue Accounts**: These are accounts that represent the inflow of economic resources to a company as a result of its business activities. Examples include sales revenue, interest revenue, and rental revenue.
5. Expense Accounts: These are accounts that represent the outflow of economic resources from a company as a result of its business activities. Examples include cost of goods sold, salaries and wages expense, and rent expense.

These classifications of accounts are important for organizing and reporting financial information accurately and effectively. By classifying accounts, it becomes easier to prepare financial statements, analyse financial performance, and make informed business decisions.

Golden Rules of Debit and Credit for different Types of Transactions

The Golden Rules of Debit and Credit for different types of transactions in accounting:

1. **Assets:**

- Debit increases an asset account.
- Credit decreases an asset account.

2. **Liabilities:**

- Debit decreases a liability account.

- Credit increases a liability account.

3. **Owner's Equity:**

- Debit decreases owner's equity account.
- Credit increases owner's equity account.

4. **Revenues:**

- Debit decreases revenue account.
- Credit increases revenue account.

5. **Expenses:**

- Debit increases an expense account.
- Credit decreases an expense account.

It's important to note that each transaction affects at least two accounts, with a debit entry made in one account and an equal and opposite credit entry made in another account. The total debits must always equal the total credits for each transaction.

These rules form the foundation of double-entry bookkeeping, which the system is used to record financial transactions in accounting.

Account Name	**Debit / Dr.**	**Credit / Cr.**
Transaction #1	Tk 10,000	Tk 3,000
Transaction #3	Tk 8,000	
Balance	**Tk 15,000**	

Additionally, the note mentioned:

"If the sum of Debit entries is greater than the sum of Credit entries, the account will have a debit balance.

Debits and Credits

If the sum of Debit entries are greater than the sum of Credit entries, the account will have a debit balance.

	Account Name		
	Debit / Dr.	**Credit / Cr.**	
Transaction #1	Tk 10,000	Tk 3,000	Transaction #2
Transaction #3	8,000		
Balance	Tk 15,000		

Debits and Credits

If the sum of Credit entries are greater than the sum of Debit entries, the account will have a credit balance.

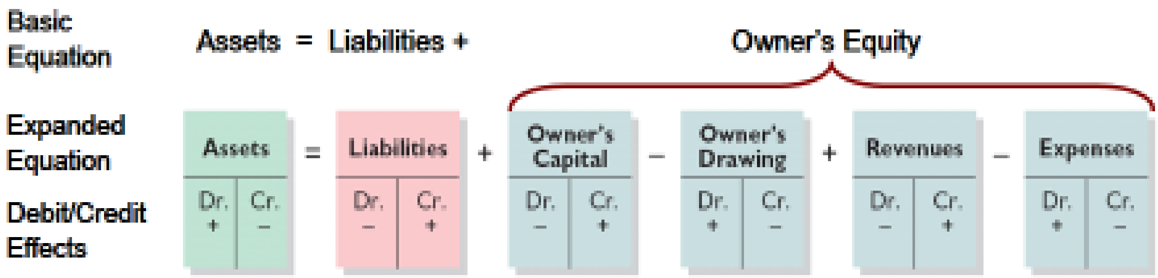
	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	**TK. 10,000**	**TK. 3,000**	**Transaction #2**
		8,000	**Transaction #3**
Balance		**TK. 1,000**	

Debits/Credits Rules

	Balance Sheet					Income Statement		
	Asset	=	Liability	+	Equity	Revenue	-	Expense
Debit	↑		↓		↓	↓		↑
Credit	↓		↑		↑	↑		↓

Summary of Debit/Credit Rules

Relationship among the assets, liabilities and owner's equity of a business:



The equation must be in balance after every transaction.
Total **Debits** must equal total **Credits**.

Steps in the Recording Process

Although it is possible to enter transaction information directly into the accounts without using a journal, few businesses do so. Practically every business uses three basic steps in the recording process:

1. Analyse each transaction for its effects on the accounts.

2. Enter the transaction information in a journal.

3. Transfer the journal information to the appropriate accounts in the ledger

The recording process begins with the transaction. Business documents, such as a sales receipt, a check, or a bill, provide evidence of the transaction. The company analyses this evidence to determine the transaction's effects on specific accounts. The company then enters the transaction in the journal. Finally, it transfers the journal entry to the designated accounts in the ledger.

Analysis of Transactions

The analysis of a transaction involves breaking it down into its component parts to determine the accounts that are affected and the amounts to be recorded. This process is important for maintaining accurate financial records and preparing financial statements. The analysis of a transaction typically involves the following steps:

1. Identify the accounts involved: Determine which accounts will be affected by the transaction. For example, if a company makes a sale, the accounts affected might include cash, accounts receivable, and revenue.
2. Determine the type of account: Determine whether each account affected is an asset, liability, equity, revenue, or expense account. This will help ensure that the transaction is properly classified for financial reporting purposes.
3. Determine the amount of each account: Determine the dollar amount that should be recorded for each account affected by the transaction. For example, if a company makes a sale for Tk1,000, the cash account would be debited for Tk1,000 and the revenue account would be credited for Tk1,000.
4. Record the transaction: Once the accounts and amounts have been identified, record the transaction in the appropriate journal entry. This will involve debiting and crediting the appropriate accounts in accordance with accounting principles and rules.
5. Post the transaction: After the journal entry has been recorded, the transaction should be posted to the appropriate general ledger accounts. This will update the company's financial records and ensure that the information is available for preparing financial statements.

   By following these steps, businesses can ensure that their financial records are accurate and that their financial statements provide a true and fair view of the company's financial position and performance.

   Here’s a table summarizing the 10 transaction examples with their corresponding accounting equation analysis:

   Transaction 1. Investment by owner Mr. Neaz decides to start a smartphone app development company which he names Neazbhai. On September 1, 2023, he invests TK. 15,000 cash in the business. This transaction results in an equal increase in assets and owner’s equity.

   Transaction 2. Purchase of equipment for cash Neazbhai PLC purchases computer equipment for TK.7,000 cash.

   T**ransaction3**. Purchase of supplies on credit Neazbhai PLC purchases for TK.1,600 headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

Transaction 4. Services performed for cash Neazbhai PLC receives TK.1,200 cash from customers for app development services it has performed.

Transaction 5. Purchase of advertising on credit Neazbhai PLC receives a bill for TK.250 from the *Daily News* for advertising on its online website but postpones payment until a later date.

Transaction 6. Services performed for cash and credit. Neazbhai performs TK.3,500 of services. The company receives cash of TK.1,500 from customers, and it bills the balance of TK.2,000 on account.

Transaction 7. Payment of expenses Neazbhai PLC pays the following expenses in cash for September: office rent TK.600, salaries and wages of employees TK.900, and utilities TK. 200.

Transaction 8. Payment of accounts payable Neazbhai PLC pays its TK.250 *Daily News* bill in cash. The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable.

Transaction 9. Receipt of cash on account Neazbhai PLC receives TK.600 in cash from customers who had been billed for services (in Transaction 6).

Transaction 10. Withdrawal of cash by owner Mr. Neaz withdraws TK.1,300 in cash in cash from the business for his personal use.

Transaction Analysis of Neazbhai PLC using Accounting Equation

	Assets				Liabilities	Owner's Equity				
Transaction	Cash	Accounts Receivable	Supplies	Equipment	Accounts payable	Owner's Capital	Owner's Drawings	Revenues	Expenses	Comments
1	15000					15000				Initial investment
2	-7000			7000						
3			1600		1600					
4	1200							1200		Service Revenue
5					250				-250	Ad Exp
6	1500	2000						3500		Service Revenue
7	-600								-600	Rent Exp
	-900								-900	Salary and Wages Exp
	-200								-200	Utilities
8	-250				-250					
9	600	-600								
10	-1300						-1300			Drawings
	8050	1400	1600	7000	1600	15000	-1300	4700	1950	

TK.18050 **TK. 18050**

Recording of Transaction

Recording a transaction in accounting involves the process of entering the transaction details into the accounting system, which usually includes a general ledger and subsidiary ledgers.

Here are the basic steps involved in recording a transaction:

1. Identify the accounts affected by the transaction - determine which accounts will be debited and which accounts will be credited.
2. Determine the amount to be recorded - identify the amount of money involved in the transaction, and ensure that the debits and credits balance.
3. Record the transaction in the general ledger - enter the transaction details into the appropriate accounts in the general ledger.
4. Post to subsidiary ledgers - if the transaction affects a subsidiary ledger, such as accounts receivable or accounts payable, post the details to those ledgers as well.
5. Prepare a trial balance - at the end of an accounting period, prepare a trial balance to ensure that the total debits equal the total credits.
6. Prepare financial statements - use the information recorded in the general ledger to prepare financial statements such as the income statement, balance sheet, and statement of cash flows.
7. Close the books - at the end of an accounting period, close the books by transferring the balances in revenue and expense accounts to retained earnings.

Recording transactions accurately is crucial to maintaining a reliable and up-to-date accounting system. It provides valuable information for decision-making, financial reporting, and compliance with regulations.

Steps in the Recording Process

Journal

A journal is a record of financial transactions that are entered in chronological order. It is the first step in the accounting cycle and provides a detailed record of all the financial transactions that occur in a business.

The journal is used to record transactions before they are posted to the general ledger. Each transaction is recorded in a separate journal entry that includes the date of the transaction, the accounts involved, the amount of the transaction, and a brief description of the transaction.

The journal serves as a reference for all subsequent accounting records, including the ledger and financial statements. It is also used as a tool for analysing the financial performance of a business by providing a complete record of all financial transactions that have occurred during a specific period.

There are several types of journals used in accounting, including the general journal, sales journal, purchase journal, cash receipts journal, and cash disbursements journal. Each type of journal is used to record specific types of transactions.

Journal – Summary
• Book of original entry. • Transactions recorded in chronological order. • Contributions to the recording process: 1. Discloses the complete effects of a transaction. 2. Provides a chronological record of transactions. 3. Helps to prevent or locate errors because the debit and credit amounts can be easily compared.

Types of Journal in Accounting

In accounting, there are various types of journals that are used to record different types of transactions. The following are some of the most common forms of journals used in accounting:

1. General Journal: This is the primary journal in accounting, used to record any transaction that doesn't fit into any of the other specialized journals. It records all types of transactions such as sales, purchases, expenses, and revenues.
2. Sales Journal: This journal is used to record all credit sales made by a business. It records the date of the sale, the name of the customer, the amount of the sale, and any sales tax charged.

3. Purchase Journal: This journal is used to record all credit purchases made by a business. It records the date of the purchase, the name of the supplier, the amount of the purchase, and any purchase tax charged.
4. Cash Receipts Journal: This journal is used to record all cash receipts received by a business. It records the date of the receipt, the name of the customer, the amount received, and the account to which the receipt is credited.
5. Cash Disbursements Journal: This journal is used to record all cash payments made by a business. It records the date of the payment, the name of the supplier, the amount paid, and the account to which the payment is debited.
6. Payroll Journal: This journal is used to record all payroll transactions. It records the names of employees, their gross pay, deductions, and net pay.

These journals serve as the source documents for posting transactions to the general ledger and are essential for accurate financial reporting.

Forms of Journals

The format of a journal typically includes the following columns:

1. Date: This column is used to record the date on which the transaction occurred.
2. Account Titles: This column is used to record the name of the account being debited or credited.
3. Debit: This column is used to record the amount of the transaction that is being debited (i.e., the amount of the transaction that is being subtracted from the account balance).
4. Credit: This column is used to record the amount of the transaction that is being credited (i.e., the amount of the transaction that is being added to the account balance).
5. Description: This column is used to provide a brief explanation of the transaction.

Transaction of different types and Journalising thereof

Example: On September June 1, 2023 Karim invested Tk. 45,000 cash in the business named Karim and Co. and purchased equipment for Tk. 14,000 cash

Date	**Account Titles**	**Ref**	**Debit**	**Credit**
March 1, 2023	Cash		Tk 45,000	
	Karim's Capital (Investment by the owner)			Tk 4,000

Here's an example of a journal entry for a cash purchase of equipment:

Date	Account Titles	Ref	Debit	Credit
March 1, 2023	Equipment		Tk5,000	
	Cash			Tk5,000
	(Cash purchase of equipment)			

In this example, the journal entry records the purchase of equipment for Tk5,000 paid in cash. The account title "Equipment" is debited forTk5,000, which increases the balance in the Equipment account. The account title "Cash" is credited for Tk5,000, which decreases the balance in the Cash account. The description column provides a brief explanation of the transaction.

It's important to note that the debits and credits in a journal entry must always balance. In other words, the total of the debits must equal the total of the credits. This is known as the accounting equation: Assets = Liabilities + Equity. Every transaction affects at least two accounts, and the total debits must always equal the total credits. This is known as double-entry accounting, and it ensures the accuracy of financial records.

Purchase and Sale of Goods for Cash

The purchase and sale of goods for cash are common transactions in accounting. Let's take a look at the journal entries that would be recorded for these transactions.

Purchase of Goods for Cash: When a business purchases goods for cash, the journal entry will be recorded in the cash disbursements journal. Let's say that on March 15, 2023, ABC Company purchased Tk 2,000 worth of inventory for cash. The journal entry would be:

Date	Account Titles	Ref	Debit	Credit
March 15, 2023	Inventory		Tk2,000	
	Cash			Tk2,000
	(Purchase of inventory for Cash)			

In this entry, the Inventory account is debited for Tk2,000, representing the increase in the inventory asset. The Cash account is credited for Tk2,000, representing the decrease in the cash asset.

Sale of Goods for Cash: When a business sells goods for cash, the journal entry will be recorded in the cash receipts journal. Let's say that on March 20, 2023, ABC Company sold Tk3,000 worth of inventory for cash. The journal entry would be:

Date	**Account Titles**	**Ref**	**Debit**	**Credit**
March 20, 2023	Cash		Tk3,000	
	Sales Revenue			Tk3,000
	(Sale of inventory for Cash)			

In this entry, the Cash account is debited for Tk3,000, representing the increase in the cash asset. The Sales Revenue account is credited for Tk3,000, representing the increase in revenue earned from the sale of inventory.

It's important to note that in these journal entries, only two accounts are affected. In the purchase of goods for cash, the Inventory account and the Cash account are affected. In the sale of goods for cash, the Cash account and the Sales Revenue account are affected. These transactions will then be posted to the general ledger accounts for each account affected.

Purchase and Sale of Goods for Credit

When a business purchases or sells goods on credit, meaning that payment is not made immediately, the following transactions and journal entries may occur:

Purchase of goods on credit:

1. The business purchases goods on credit from a supplier.
2. The Purchase Journal is used to record the transaction.
3. The account titles debited are Inventory and the account titles credited are Accounts Payable.
4. The amount debited to Inventory represents the cost of the goods purchased, and the amount credited to Accounts Payable represents the amount owed to the supplier.

Here's an example of a journal entry for the purchase of goods on credit:

Date	**Account Titles**	**Ref**	**Debit**	**Credit**

March 15, 2023	Inventory		Tk1,000	
	Accounts Payable			Tk1,000
	(Purchase of inventory on account from XYZ Supplier)			

Sale of goods on credit:

1. The business sells goods on credit to a customer.
2. The Sales Journal is used to record the transaction.
3. The account titles debited are Accounts Receivable and the account titles credited are Sales Revenue.
4. The amount debited to Accounts Receivable represents the amount owed by the customer, and the amount credited to Sales Revenue represents the revenue earned by the business.

Here's an example of a journal entry for the sale of goods on credit:

Date	Account Titles	Ref	Debit	Credit
March 20, 2023	Accounts Receivable		Tk1,500	
	Sales Revenue			Tk1,500
	(Sale of inventory on account to ABC Customer)			

It's important to note that when the business receives payment from the customer, the journal entry will be recorded in the Cash Receipts Journal, debiting Cash and crediting Accounts Receivable to reflect the collection of the accounts receivable. Similarly, when the business pays the supplier for the goods purchased on credit, the journal entry will be recorded in the Cash Disbursements Journal, debiting Accounts Payable and crediting Cash to reflect the payment made.

Note that each transaction is recorded with at least two entries to ensure that the debits and credits balance.

Ledger

A ledger is a record-keeping system that tracks all financial transactions of a business. It is a set of accounts that are used to maintain the financial records of a company.

Ledgers are essential in accounting because they provide a complete record of all financial transactions, including sales, purchases, payments, and receipts. They serve as the foundation for financial statements such as the balance sheet, income statement, and cash flow statement.

There are two main types of ledgers in accounting:

1. **General ledger:** This ledger contains all the financial transactions of a company, organized by accounts such as cash, accounts payable, accounts receivable, inventory, and so on. The general ledger serves as a central repository of all financial transactions and provides the basis for the preparation of financial statements.
2. **Subsidiary ledger:** This ledger contains detailed information about specific accounts, such as accounts receivable or accounts payable. It provides a more detailed view of a particular account, including transaction history, outstanding balances, and payment history.

Overall, ledgers are an essential component of accounting systems and provide a comprehensive view of a company's financial activities.

Forms of Ledger Accounts

T- Form Accounts

Account title (Example: Cash) No. 101

Date	Explanation	Ref	Debit	Date	Explanation	Ref	Credit
2023				2023			
June 1				June 1			
2				2			
3				3			
4				4			

T-form ledger accounts are a type of accounting ledger that uses a T-shaped format to record transactions. The T-form ledger account has two sides: the left side represents debits and the right side represents credits.

The T-form ledger account is divided into two columns: the debit column on the left and the credit column on the right. Each column lists the transactions that affect the account. Debits are recorded on the left side, and credits are recorded on the right side.

The T-form ledger account is used to record transactions for specific accounts, such as cash, accounts receivable, accounts payable, and inventory. Each account has its T-form ledger account, which allows for a clear and concise record of all transactions that have occurred.

The T-form ledger account is an essential tool in accounting, as it provides a clear picture of the financial transactions of a business. It allows accountants to track the flow of money in and out of accounts, which is critical for financial reporting and analysis.

Standard Form of Account

The simple T-account form used in accounting textbooks is often very useful for illustration purposes. However, in practice, the account forms used in ledgers are much more structured. This format is also called the three-column form of account. It has three money columns—debit, credit, and balance. The balance in the account is determined after each transaction. Companies use the explanation space and reference columns to provide special information about the transaction

Account title (Example: Cash) No. 101

Date	Explanation	Ref	Debit	Credit	Balance
2023					
June 1					
2					
3					
4					

The standard form of account typically includes the following components:

1. Account Title: The name of the account is written at the top of the page.
2. Account Number: Each account is assigned a unique account number for identification and reference purposes.
3. Date: The date of each transaction is recorded in chronological order.
4. Description: A brief description of the transaction is recorded to provide context and clarity.
5. Debit and Credit Columns: The standard form of account includes separate columns for debits and credits, with the debit column on the left and the credit column on the right. All transactions are recorded in these columns.
6. Balance Column: The balance column is located next to the credit column and is used to calculate the current balance of the account after each transaction.
7. Reference Column: The reference column is used to record the reference number of the transaction for easy retrieval and verification.

By using the standard form of account, businesses and organizations can easily and accurately record their financial transactions, track their account balances, and prepare financial statements.

Importance of Ledger

Ledgers play a crucial role in accounting as they are used to record and organize financial transactions of a business. Here are some of the reasons why ledgers are important in accounting:

1. Record keeping: Ledgers serve as a permanent and organized record of all financial transactions of a business. They provide a historical record of financial activities, which can be referred to in case of disputes or audits.
2. Accuracy: Ledgers ensure accuracy in financial reporting by maintaining a record of every financial transaction that occurs. This helps in preventing errors and discrepancies in accounting records.
3. Classification: Ledgers help classify transactions into various accounts based on their nature and purpose. This helps in analysing financial statements and making informed business decisions.
4. Preparation of financial statements: The information recorded in ledgers forms the basis for preparing financial statements such as the balance sheet, income statement, and cash flow statement. These statements provide valuable insights into the financial health of a business.
5. Budgeting and forecasting: Ledgers help in budgeting and forecasting by providing a historical record of financial transactions. This helps in identifying trends and making projections for future financial activities.

In summary, ledgers are an essential tool in accounting that provide accurate and organized records of financial transactions. They are used to prepare financial statements, make informed business decisions, and plan for future financial activities.

Posting to the ledger

Posting to the ledger is the process of transferring the information recorded in the journal to the appropriate accounts in the general ledger. This process is necessary to ensure accurate and up-to-date accounting records.

Here are the steps involved in posting to the ledger:

1. Identify the accounts: Determine the accounts affected by the transaction recorded in the journal. Each account has a unique account number and title.
2. Determine the debit or credit: Determine whether the transaction is a debit or credit for each account affected. Debits and credits are recorded on opposite sides of the account.

3. Post the transaction: Record the transaction in the appropriate accounts in the ledger by entering the date, account number, account title, and amount of the transaction. Debits are recorded on the left side of the account, while credits are recorded on the right side of the account.
4. Calculate the account balance: After posting the transaction, calculate the balance of the account by adding the debits and subtracting the credits or vice versa.
5. Verify the accuracy: After posting the transaction, verify that the total debits equal the total credits. If they do not match, there may be an error in the transaction or in the posting process.

By following these steps, businesses can ensure that their accounting records are accurate and up-to-date, and can use the information in the ledger to prepare financial statements, make informed business decisions, and comply with regulatory requirements.

Trial Balance

A trial balance is a list of all the balances of the ledger accounts at a specific point in time. It is prepared to ensure that the total debits equal the total credits in the accounting records.

The typical format for a trial balance is as follows:

Name of the Business
Trial Balance
As at December 31, 202x

Account Title	Debit Balances (Taka)	Credit Balances (Taka)
Account A		
Account B		
Account C		
Total		

The debit column lists all the accounts with debit balances, and the credit column lists all the accounts with credit balances. The total of the debit column should equal the total of the credit column. If the totals do not match, it indicates that there is an error in the ledger, which must be identified and corrected before financial statements can be prepared.

Steps involved in preparing a Trial Balance:

1. List all accounts and balances: List all the accounts and their balances from the ledger in a worksheet or a specialized software.
2. Determine the debit or credit balance: Determine whether each account has a debit or credit balance.
3. Total the debit and credit balances: Add up all the debit balances and all the credit balances separately.
4. Verify the equality of debits and credits: Compare the total debits and credits to ensure that they are equal. If they are not equal, there may be an error in the accounting records, such as an incorrect posting or a math mistake.
5. Investigate and correct errors: If the debits and credits do not balance, investigate the accounts and transactions to identify the errors and make the necessary adjustments.

Preparing a trial balance is important as it helps ensure the accuracy of the accounting records and identify errors before preparing financial statements. However, it is important to note that a balanced trial balance does not necessarily mean that the accounting records are error-free. There may still be errors that cancel each other out or are not reflected in the ledger accounts. Therefore, it is important to verify the accuracy of the accounting records through other means, such as audits and reviews.

Advantages of Trial Balance

The trial balance is a statement that lists all the general ledger account balances of a business, showing the total debits and total credits. Here are some of the advantages of preparing a trial balance:

1. **Ensures accuracy:** The primary advantage of a trial balance is that it helps to ensure the accuracy of the accounting records. It ensures that the total debits equal the total credits and identifies any errors in the ledger accounts. By detecting errors early, businesses can correct them before preparing financial statements and making business decisions based on incorrect information.
2. **Saves time:** Preparing a trial balance saves time by identifying any errors in the accounts before preparing the financial statements. If errors are detected after the financial statements have been prepared, it can be time-consuming and costly to make corrections.
3. **Facilitates analysis**: A trial balance provides an overview of all the accounts in the general ledger, allowing businesses to analyze their financial data and make informed decisions. It

also helps to identify any accounts with unusually high or low balances that may require further investigation.

4. **Simplifies audit process**: A trial balance simplifies the audit process by providing a snapshot of the financial records of a business. Auditors can use the trial balance to review the balances of all the accounts and identify any discrepancies or irregularities.
5. **Supports compliance**: Preparing a trial balance is an essential part of compliance with accounting standards and regulations. It provides a documented record of a business's financial transactions, which is required for tax and legal purposes.

Overall, the trial balance is a valuable tool for businesses to ensure the accuracy of their accounting records, facilitate analysis and decision-making, simplify audits, and support compliance with accounting standards and regulations.

Limitations of a Trial Balance

While a trial balance is a useful tool in accounting, it is important to note that it has limitations and cannot guarantee freedom from recording errors. There may be instances where the totals of the trial balance columns agree, but errors still exist. For instance, the trial balance may balance even when:

1. A transaction is not journalized.
2. A correct journal entry is not posted.
3. A journal entry is posted twice.
4. Incorrect accounts are used in journalizing or posting.
5. Offsetting errors are made in recording the amount of a transaction.

In these scenarios, as long as equal debits and credits are posted, even if they are posted to the wrong account or in the wrong amount, the total debits will still equal the total credits. Therefore, the trial balance does not prove that the company has recorded all transactions accurately, nor does it guarantee that the ledger is correct. It is essential for companies to employ additional measures, such as regular audits and thorough reviews of financial statements, to ensure the accuracy of their accounting records.

Errors in accounting that can be detected in the trial balance:

1. Errors of omission: These are errors that occur when a transaction is completely left out of the accounting records. For example, a sale may be made, but it is not recorded in the books.
2. Errors of commission: These are errors that occur when a transaction is recorded, but the wrong amount is entered, or the wrong account is debited or credited. For example, if a payment of Tk500 is recorded as Tk50 in the books, it is an error of commission.
3. Errors of principle: These are errors that occur when a transaction is recorded in violation of accounting principles. For example, if a capital expenditure is treated as a revenue expenditure, it is an error of principle.
4. Errors of original entry: These are errors that occur when an incorrect amount is entered in the books at the time of the original entry. For example, if a sales invoice is recorded as Tk550 instead of Tk500, it is an error of original entry.

Apart from the above-mentioned errors, there are some other errors that cannot be detected in the trial balance. These include:

1. Errors of duplication: These are errors that occur when a transaction is recorded twice in the books. For example, if a purchase invoice is recorded twice, it is an error of duplication.
2. Errors of compensating: These are errors that occur when one error cancels out another error, resulting in a trial balance that still balances. For example, if an expense is understated and a revenue is overstated by the same amount, the trial balance will still balance, but the financial statements will be incorrect.
3. Errors of timing: These are errors that occur when a transaction is recorded in the wrong accounting period. For example, if a sale is recorded in December, but the goods are not delivered until January, it is an error of timing.
4. Errors of omission of adjusting entries: These are errors that occur when adjusting entries are not recorded in the books, resulting in inaccurate financial statements. For example, if a company fails to record depreciation expense, its financial statements will not reflect the true value of its assets.

Practical Problems

Transaction Analysis, Journal, Ledger and Trial Balance

Problem 1:

On April 1, Mr. Muaz established Muaz Tourism Agency. The following transactions were completed during the month.

[Dec.-2013]

(i) Invested Tk. 15,000 cash to start the agency.

(ii) Paid Tk. 600 cash for April office rent.

(iii) Purchased office equipment for Tk. 3,000 cash.

(iv) Incurred Tk. 700 advertising cost on account.

(v) Paid Tk. 800 cash for office supplies.

(vi) Earned Tk. 11,000 for services rendered; Tk. 3,000 cash is received from customers and the balance of Tk. 8,000 is billed to customers on account use.

(vii) Withdrew Tk. 500 cash for personal

(viii) Paid the amount due in (iv).

(ix) Paid employee's salaries Tk. 2,200.

(x) Received Tk. 4,000 in cash from customers who have previously been billed in transaction (vi).

Instructions:

(i) Prepare a tabular analysis of the transactions using the basic accounting equation

(ii) Muaz Tourism Agency's Income Statement

Tabular Analysis of Transactions

	Assets								Liabilities And Owner's Equity			
Date	**Cash**	**+**	**Accounts Receivable**	**+**	**Office Supplies**	**+**	**Office Equipment**	**+**	**Accounts Payable**	**+**	**Owner's Capital**	**Comments**
1	15000										15000	Initial Investment
2	-600										-600	Office Rent
3	-3000						3000					
4									700		-700	Advertising Expense
5	-800				800							

6	3000		8000								11000	Service Revenue
7	-500										-500	Drawings
8	-700								-700			
9	-2200										-2200	Salaries Expense
10	4000		-4000									
	14200		4000		800		3000		0		22000	
	22000								**22000**			

Muaz Tourism Agency

Income Statement

For the month ended April 30

	Tk	Tk.
Income:		
Service Revenue		11000
Expenses :		
Salaries Expenses	2200	
Office Rent	600	
Advertisement Exp.	700	
Total Expenses		3500
Net Income		**7500**

Problem – 2

Mr. Shafique and started a business of his own in 2023. During the first month of operation of his business, the following events and transactions occurred:

[May-2006; slightly modified]

May 1 Shafique invested Tk. 2,00,000 cash.

2 Hired a secretary— receptionist at a salary of Tk. 10,000 per month.

3 Purchased supplies of Tk. 15,000 on account from Raman Supply Company.

7 Paid office rent of Tk. 9,000 cash for the month.

11 Completed a tax assignment and billed client Tk. 21,000 for services provided.

31 Paid secretary- receptionist Tk. 10,000 salary for the month.

31 Paid 50% of balance due to Raman Supply Co.

Requirements:

i. Journalize the transaction ;
ii. Post to Ledger Accounts;
iii. Prepare a Trial Balance on May 31, 2023.

Solution

i. Journalizing the transactions

Mr Shafique

Journal

Date	Account Titles & Explanation	Ref.	Debit	Credit
2023 May- 01	Cash Shafique's Capital. (Owners Investment of cash in business)		1,00,000	 1,00,0000
May- 02	No entry. (Hire, Order, contract etc. are not financial transactions)			
May- 03	Supplies Accounts Payable-Raman Supply Company (Purchased supplies on account from Excellent Supply Company)		15,000	15,000
May- 07	Rent Expenses Cash (Paid monthly office rent)		9,000	9,000
May- 11	Accounts Receivable Service Revenue (Billed client for Service rendered)		21,000	21,000
May- 12	Cash Unearned Service Revenue (Received cash in advance for future service)		35,000	35,000
May- 17	Cash Service Revenue (Received cash for service completed)		12,000	12,000
May- 31	Salary Expenses		10,000	10,000

	Cash (Salary is paid)			
May- 31	Accounts Payable-Raman Supply Company Cash (Paid 50% of Raman Supply co. 15,000 × 50% = 7,500)		7,500	7,500

ii. Posting to Ledger Accounts

Mr. Shafique

Cash Account

Date	Explanation	Ref.	Debit	Credit	Balance
May- 01	Shafique's Capital		100000		100000
May- 07	Rent Expenses			9000	91000
May- 12	Unearned Service Revenue		35000		126000
May- 17	Service Revenue		12000		138000
May- 31	Salary Expenses			10000	128000
May- 31	Accounts Payable			7500	120500

Shafique's Capital

Date	Explanation	Ref.	Debit	Credit	Balance
May- 01	Cash			100000	100000

Supplies

Date	Explanation	Ref.	Debit	Credit	Balance
May- 03	Accounts Payable		15000		15000

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
May- 03	Supplies			15000	15000
May- 31	Cash			7500	7500

Rent Expenses

Date	Explanation	Ref.	Debit	Credit	Balance
May- 07	Cash		9000		9000

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
May- 11	Service Revenue		21000		21000

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
May- 11	Accounts Receivable			21000	21000
May- 17	Cash			12000	3300

Unearned Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
May- 12	Cash		35000		35000

Salary Expense

Date	Explanation	Ref.	Debit	Credit	Balance
May- 01	Cash		10000		10000

iii. Preparing a Trial Balance on May 31, 2023.

Mr. Shafique
Trail Balance
May 31, 2023

Accounts Titles	Debit	Credit
Cash	120500	
Shafique’s Capital		100000
Supplies	15000	
Accounts Payable		7500
Rent Expenses	9000	
Accounts Receivable	21000	
Service Revenue		33000
Unearned Service Revenue		35000
Salary Expenses	10000	
	175500	**175500**

Problem- 3

Mr. Hasan started a business on April 1, 2023 and the following transactions took place during the first month.

[Nov 2011, slightly modified]

April	1	Hasan invested Tk. 2,00,000 cash.
	4	Purchased land costing Tk. 50,000 for cash.
	8	Incurred advertising expenses of Tk. 2,000 on account.
	11	Paid salaries to employees Tk. 15,000.
	12	Hired a park manager at a salary of Tk. 40,000 p.m. effective May 1
	13	Paid Tk. 36,000 cash for a one year insurance policy
	17	Withdrew Tk. 10,000 cash for personal use.
	20	Received Tk. 6.000 for admission fees.
	25	Sold 100 coupon books for tk. 250 cash. Each book contains 10 coupons that 100 allow the holder to one admission to the park.
	30	Received Tk. 8,900 in cash admission fees.
	30	Paid Tk. 900 to the advertising agency incurred on April 8.

Mr. Hasan has the following accounts:- Cash prepaid Insurance, Land, Accounts Payable unearned Admission Revenue, Mr. Hasan capital, Mr. Hasan, Drawing Admission of Revenue, Advertising Expense and Salaries Expense.

You are required to -

(i) Journalize the April Transactions; (ii) Post to the ledger; (iii) Prepare a trial balance.

Solution-

i.

M. Hasan
Journal

Date	Account Titles & Explanation	Ref.	Debit	Credit
2023 April- 01	Cash Capital— Mr. Hasan (Owners Investment of cash in business)		200000	 200000
April- 04	Land Cash		50000	 50000

	(Land purchase in cash)			
April- 08	Advertisement Expenses Accounts Payable (Advertisement incurred on account)		2000	 2000
April- 11	Salaries Expenses Cash (Salaries paid in cash)		15000	 15000
April- 12	No Entry			
April- 13	Prepaid Insurance Cash ((Insurance premium paid for 1 year)		36000	 36000
April- 17	Mr. Hasan Drawing Cash (Withdrew cash for personal use)		10000	 10000
April- 20	Cash Service revenue (Received cash for entrance fees)		6000	 6000
April- 25	Cash Unearned Service Revenue (Cash received from sale of 100 coupon book.)		25000	 25000
April- 30	Cash Service Revenue (Cash received from entrance fees.)		8900	 8900
April- 30	Accounts Payable Cash (Cash Paid to the advertising agency)		900	 900
April- 30	Insurance Expenses Prepaid Insurance (For April Insurance premium.)		3000	 3000

ii.

Mr. Hasan
Ledger
April 30, 2023

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
April 1	Capital— M. Hasan		200000		200000
April 4	Land			50000	150000
April 11	Salaries Expenses			15000	135000
April 13	Prepaid Expenses			36000	99000
April 17	Hasan's Drawings			10000	89000
April 20	Service Revenue		6000		95000
April 25	Unearned Service Revenue		25000		120000
April 30	Service Revenue		8900		128900
April 30	Accounts Payable			900	**128000**

Capital— M. Hasan

Date	Explanation	Ref.	Debit	Credit	Balance
April 1	Cash			200000	200000

Land

Date	Explanation	Ref.	Debit	Credit	Balance
April 4	Cash			50000	50000

Advertisement Expense

Date	Explanation	Ref.	Debit	Credit	Balance
April 8	Accounts Payable		2000		2000

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
April 8	Advertisement Expense			2000	2000
April 30	Cash		900		**1100**

Prepaid Insurance

Date	Explanation	Ref.	Debit	Credit	Balance
April 13	Cash		36000		36000

April 30	Insurance Expense			3000	**33000**

Drawings

Date	Explanation	Ref.	Debit	Credit	Balance
April 17	Cash			10000	10000

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
April 20	Cash			6000	6000
April 30	Cash			8900	**14900**

Unearned Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
April 25	Cash			25000	25000

Insurance Expense

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Prepaid Insurance			3000	3000

iii.

M. Hasan
Trail Balance
April 30, 2023

Accounts Titles	Debit	Credit
Cash	128000	
Land	50000	
Advertisement Expenses	2000	
Salaries Expenses	15000	
Prepaid Insurance	33000	
Hasan Drawings	10000	
Insurance Expenses	3000	
Mr. Hasan Capital		200000
Accounts Payable		1100
Serivce Revenue		14900
Unearned Service Revenue		25000
	241000	**241000**

Problem- 4

From the following transactions of Mafiz occurred in November 2023, prepare (i) journal, (ii) ledger and (iii) trial balance

[Nov-2007, slightly modified]

1. Mr. Mafizl started business with a capital of Tk. 1,00,000.
2. Paid Tk. 12, 000 for one year insurance policy.
3. Purchased goods for Tk. 50,000 of which Tk. 20,000 paid in cash
4. Goods sold for Tk. 1,20,000 of which Tk. 70,000 in cash.
5. Paid rent Tk. 10,000.
6. Received commission Tk.5,000.
7. Paid salary Tk. 8,000.
8. Withdraw Tk: 5,000 for personal use.
9. Took loan from a bank Tk. 50,000 with an interest rate of 10%.
10. Goods sold on credit Tk. 20,000.

Solution

i.

Mr Mafiz
Journal

Date	Account Titles & Explanation	Ref.	Debit	Credit
1	Cash Mafiz Capital. (Owners Investment of cash in business)		1,00,000	 1,00,0000
2	Prepaid Insurance Cash [Cash paid for 1 year policy]		12,000	 12,000
3	Purchase Cash Account Payable [For purchase goods on credit and cash]		50,000	 20,000 30,000
4	Cash Account Receivable Sales [For Sales on credit and cash]			
5	Rent Expenses Cash		10,000	 10,000

	[For payment of rent]			
6	Cash Commission [For commission received.]		5,000	 5,000
7	Salary Expenses Cash [For payment of Salary]		8,000	 8,000
8	Drawings Cash [Cash withdrawn by owners]		5,000	 5,000
9	Cash 10% Bank Loan [Loan received from Bank.].		50,000	 50,000
10	Account Receivable Sales [For sales on credit]		20,000	 20,000

ii.

Mr Mafiz
Ledger

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
	Mr. Mafiz's Capital		100000		100000
	Prepaid Insurance			12000	88000
	Purchase			20000	68000
	Sales		70000		138000
	Rent Expenses			10000	128000
	Commission		5000		133000
	Salary Expenses			8000	125000
	Drawings			5000	120000
	0%Bank Loan		50000		170000

Mafiz's Capital

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash			100000	100000

Prepaid Insurance

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash		12000		12000

Purchase

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash		20000		20000
	Accounts Payable		30000		50000

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
	Sales		50000		50000
	Sales		20000		70000

Sales

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash			70000	70000
	Accounts Receivable			50000	120000
	Accounts Receivable			20000	140000

Rent Expenses

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash		10000		10000

Salary Expense

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash		8000		8000

Drawings

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash		5000		5000

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
	Purchase			30000	30000

Bank Loan

Date	Explanation	Ref.	Debit	Credit	Balance
	Cash		50000		50000

iii.

Mr. Mafiz

Trail Balance

Nov 30, 2023

Accounts Titles	Debit	Credit
Cash	170000	
Mr. Mafiz's Capital		100000
Prepaid Insurance	12000	
Purchase	50000	
Accounts Receivable	70000	
Sales		140000
Rent Expenses	10000	
Commission		5000
Salary Expenses	8000	
Drawings	5000	
Accounts Payable		30000
10% Bank Loan		50000
	325000	**325000**

Problem 5

Mr. Zaman started his business on January 1, 2023 and during the first month, the following transactions occurred:-

[June-2013, modified]

Jan	1	Zaman invested Tk. 20,000 cash.
	2	The company paid Tk. 1,000 cash for store rent.
	3	Purchased washers and dryers for Tk. 25,000, paying Tk. 10,000 in cash and signing a Tk. 15,000, 6-month, 12% note.
	4	Paid Tk. 1,200 for a one-year insurance policy.
	10	Received a bill from the 'Daily News' for advertising the opening of the Laundry Tk. 200.
	20	Zaman withdrew Tk. 700 cash for personal use.
	30	The company determined that cash receipts for laundry services for the month were Tk. 6200.

The chart of accounts followed by M. Zaman includes: Cash, M. Zaman, Capital, M. Zaman, Drawing, Rent Expense, Laundry Equipment, Notes Payable, Prepaid Insurance, Advertising Expenses, Accounting Payable, Service Revenue.

Instructions:

(a) Journalize the transactions;

(b) Post the transaction to the ledgers;

(c) Prepare a trial balance at January 31.

Solution-

Mr. M. Zaman

a. **Journal**

Date	Account Titles & Explanation	Ref.	Debit	Credit
2013 Jan- 01	Cash Capital		20000	 20000
Jan- 02	Rent Expenses Cash		1000	 1000
Jan- 03	Laundry Equipment Cash		25000	 10000

	Note Payable			15000
Jan- 04	Prepaid Insurance Cash		1200	 1200
Jan- 10	Advertisement Expense Accounts Payable		200	 200
Jan- 20	Drawings Cash		700	 700
Jan- 30	Cash Service revenue		6200	 6200

b.

Mr. M. Zaman
Ledger

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 01	Capital		20000		20000
Jan- 02	Rent Expenses			1000	19000
Jan- 04	Laundry Equipment			10000	9000
Jan- 08	Prepaid Insurance			1200	7800
Jan- 20	Drawings			700	7100
Jan- 30	Service revenue		6200		**13300**

Capital

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 01	Cash			20000	20000

Rent Expenses

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 02	Cash		1000		1000

Laundry Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 03	Cash		10000		10000

Jan- 03	Note Payable		15000		**25000**

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 30	Advertisement Expense			200	200

Prepaid Insurance

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 04	Cash		1200		1200

Advertisement Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 10	Accounts Payable		200		200

Drawings

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 04	Cash		700		700

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 30	Cash			6200	6200

Note Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Jan- 04	Laundry Equipment			15000	15000

c.

Mr. M. Zaman
Trail Balance
January 31, 2023

Accounts Titles	**Debit**	**Credit**
Cash	13300	
Rent Expenses	1000	
Laundry Equipment	25000	
Prepaid Insurance	1200	
Advertisement Expenses	200	
Drawings	700	
Capital		20000
Note payable		15000
Accounts Payable		200
Service revenue		6200
	41400	**41400**

Problem 6:

The trial balance column of the worksheet for Sunanda Enterprise at March 31, 2024, is as follow:- [June 2013, slightly modified]

Sunanda Enterprise
Worksheet
For the month ended March 31, 2024

Accounts Titles	**Debit**	**Credit**
Cash	4500	
Accounts Receivables	3200	
Roofing Supplies	2000	
Equipment	11000	
Accumulated Depreciation- Equipment		1250
Accounts Payable		2500
Unearned Service Revenue		550
Sunanda		12900
Sunanda, Drawing	1100	
Service Revenue		6300
Salaries Expense	1300	
Miscellaneous Expense	400	
	23500	**23500**

Other Data:

(a) A physical count reveals only Tk. 650 of roofing supplies on hand.
(b) Depreciation for March is Tk. 250.
(c) Unearned revenue amounted to Tk. 170 at March 31.
(d) Accrued salaries are Tk. 600

Requirements: (1) Complete the worksheet; (2) Prepare an income statement; (3) Journalize adjusting entries; (4) Journalize closing entries.

Solution:

Sunanda Enterprise
Worksheet
For the month ended March 31, 2024

Accounts Titles	**Trail Balance**		**Adjustments**		**Adjusted Trail Balance**		**Income Statement**		**Balance Sheet**	
	Debit	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**
Cash	4500				4500				4500	
Accounts Receivables	3200				3200				3200	
Roofing Supplies	2000			1350	650				650	
Equipment	11000				11000				11000	
Accumulated Depreciation-Equipment		1250		250		1500				1500
Accounts Payable		2500				2500				2500
Unearned Service Revenue		550	380			170				170
Sunanda, Capital		12900				12900				12900
Sunanda, Drawing	1100				1100				1100	
Service Revenue		6300		380		6680		6680		
Salaries Expense	1300		600		1900		1900			
Miscellaneous Expense	400				400		400			
	23500	**23500**								
Roofing Supplies Expenses			1350		1350		1350			
Depreciation Expenses			250		250		250			
Salaries Payable				600		600				600
			2580	**2580**	**24350**	**24350**				
Net Income							2780			2780
							6680	**6680**	**20450**	**20450**

2

Sunanda Enterprise
Income Statement
For the month ended March 31, 2024

Explanation		**Taka**	**Taka**
Income:			
Service Revenue		6300	
Add: Unearned Service Revenue		380	
Total Revenue			**6680**
Expense:			
Salaries Expenses	1300		
Add: Accrued Salaries	600		
		1900	
Miscellaneous Expenses		400	
Roofing Supplies Expenses (2000-650)		1350	
Depreciation Expenses		250	
Total Expenses			3900
Net Income			**2780**

3. Adjusting Entries

Sunanda Enterprise
Adjusting Entry

Date	Account Titles & Explanation	L.F.	Debit	Credit
	Roofing Supplies Expenses		1350	
	Roofing Supplies			1350
	Depreciation Expenses		250	
	Accumulated Depreciation- Equipment			250
	Unearned Service Revenue		350	
	Service Revenue			350
	Salaries Expense		600	
	Salaries Payable			600

4. Sunanda Enterprise

Closing Entry

Date	Account Titles & Explanation	L.F.	Debit	Credit
	Service Revenue		6680	
	Income Summary			6680
	Income Summary		3900	
	Salaries Expenses			1900
	Miscellaneous Expenses			400
	Roofing Supplies Expenses			1350
	Depreciation Expenses			250

CASH BOOK

Problem7:

Enter the following transactions in a three column cash book of XYZ and Company.

[May-June-2005, modified]

2023 Jan-01 Cash in hand 5,500; balance at bank Tk. 70,000

02 Received from Mr. Rahim Tk. 625, allowed him discounts Tk. 250

04 Paid salaries for May 2004 by cash Tk. 4,000; cash sales Tk. 13,400.

05 Paid Mr. Sumon by cheque Tk. 2,000; cash purchases Tk. 650

06 Withdrew from bank for office use Tk. 2,000, paid rent in cash Tk. 2,000

15 Deposited into bank Tk. 5,000

20 Purchased a motor car Tk. 25. 25,000

23 Cash sales Tk. 25,000.

24 Received a cheque from Akkas for Tk. 6,500 and allowed him a discount Tk. 50 and deposited the same in bank.

26 Bank notifies that Akkas's cheque could not be collected.

28 Cash sales Tk. 10,000.

29 Received from Abul a cheque of Tk. 15,000

30 Bank charges Tk. 250.

Solution:

XYZ & Co.

Cash Book (three columns)

Date		Discount	Cash	Bank	Date		Discount	Cash	Bank
2004					2004				
June-01	Balance b/d		5500	70000	June-04	Salaries		4000	
02	Mr. Rahim	250	625		05	Mr Sumon			2000
04	Sales		13400		05	Purchase		650	
06	Bank (c)		2000		06	Cash (c)			2000
15	Cash (c)			5000	06	Rent Expenses		2000	
23	Sales		25000		15	Bank (c)		5000	
24	Akkas	50		6500	20	Motor Car			25000
26	Bank (c)		6500		26	Cash (c)			6500
28	Sales		10000						
29	Mr. Abul		15000		30	Bank (c)		15000	
30	Cash (c)			15000	30	Bank charge			250
					30	Bal c/d		51375	60750
		300	**78025**	**96500**				**78025**	**96500**

ACCOUNTING FOR FIXED ASSETS / CAPITAL EXPENDITURES

Plant assets, also known as property, plant, and equipment (PPE), represent a significant investment in the long-term physical resources of a company. These tangible assets are used in operations to produce income and typically have useful lives extending beyond one year. The accounting for plant asset expenditures involves determining the initial cost of the assets, allocating costs over their useful lives, and handling any subsequent capital expenditures. Key components of plant assets include land, land improvements, buildings, and equipment. Each has distinct cost elements and specific rules for accounting treatment.

Determining the Cost of Plant Assets

The general principle of plant asset accounting is to capitalize all costs that are necessary to acquire the asset and prepare it for use. This includes the purchase price, legal fees, and any other costs directly attributable to the acquisition or construction of the asset. Subsequent costs, such as maintenance, may either be expensed or capitalized depending on whether they enhance the asset's useful life or productive capacity.

1. Cost of Land

Land is unique among plant assets as it has an indefinite life and is not subject to depreciation. The cost of land includes the following:

- **Purchase Price:** The acquisition cost paid to the seller.
- **Closing Costs:** Legal fees, title fees, recording fees, and commissions to real estate agents.
- **Site Preparation Costs:** These may include demolition costs for existing structures (minus any salvageable material), clearing, and leveling the land.
- **Special Assessments:** Costs associated with permanent improvements such as street access, drainage, sidewalks, and utilities, which enhance the land's value.
- **Back Taxes or Liabilities:** Any liens or back taxes associated with the land are also capitalized as part of its cost.

For example, if a company purchases land for TK. 100,000, incurs TK. 5,000 in closing fees, and spends TK. 15,000 to demolish an old building on the site, the total capitalized cost of the land would be TK. 120,000.

2. Cost of Land Improvements

Land improvements are assets that have a finite useful life, distinct from the land itself. These are costs incurred to make the land usable and typically include:

- Parking lots
- Fencing
- Landscaping
- Street lighting

Land improvements are depreciated over their estimated useful lives. For example, if a company spends TK. 20,000 on landscaping and expects it to last for 10 years, the cost would be depreciated over that time period.

3. Cost of Buildings

Buildings used in operations (e.g., manufacturing plants, office buildings, warehouses) must be accounted for in the following manner:

- **Purchase Price or Construction Costs:** The purchase price of an existing building or construction costs, including materials, labor, and overhead.
- **Renovation Costs:** If the building is renovated before use, such as installing new plumbing, electrical systems, or structural improvements, these costs are capitalized.
- **Architectural Fees and Permits:** Any professional fees and permits associated with the construction or acquisition of the building.

If a company constructs a building for TK. 500,000 and spends TK. 50,000 on permits, architectural fees, and another TK. 100,000 for structural renovations, the total cost of the building will be TK. 650,000. This cost will be depreciated over the building's useful life (e.g., 40 years).

4. Cost of Equipment

Equipment includes machinery, vehicles, computers, and other tools necessary for operations. The capitalized cost includes:

- **Purchase Price:** The invoice price of the equipment.
- **Installation Costs:** Costs to install the equipment and make it operational (e.g., testing, calibration).
- **Freight and Handling:** Shipping charges and any necessary insurance or handling fees during transit.
- **Assembly and Installation:** Labor costs required to assemble and install the equipment at its operational site.

For example, if a company buys machinery for TK. 80,000, spends TK. 5,000 on shipping, and another TK. 10,000 on installation, the total capitalized cost of the equipment will be TK. 95,000. This will be depreciated over the equipment's useful life (e.g., 10 years).

Subsequent Capital Expenditures

Subsequent costs incurred after the asset is operational may either be capitalized or expensed depending on their nature.

1. Additions and Improvements

Expenditures that enhance the asset's useful life, capacity, or productivity should be capitalized. These costs are added to the book value of the asset and depreciated over the remaining useful life. Examples include:

- Adding a new wing to a building
- Upgrading machinery with a more efficient component

For example, if a company upgrades a machine to improve production capacity by adding TK. 10,000 in costs, this expenditure will be capitalized and depreciated over the machine's remaining life.

2. Repairs and Maintenance

Routine maintenance costs that do not improve or extend the life of the asset should be expensed in the period incurred. This includes:

- Lubricating machines
- Painting a building
- Replacing worn-out parts

These costs are treated as operating expenses and do not affect the asset's book value.

Depreciation Methods for Plant Assets

Depreciation is the process of allocating the cost of a tangible plant asset over its useful life. The objective is to match the expense of the asset to the revenues it helps generate over time. Several methods are used for computing depreciation, depending on the nature of the asset and the company's financial reporting objectives. Three commonly used methods include **Straight-line**, **Units-of-Activity**, and **Declining-Balance**. Each method approaches the allocation of depreciation differently, affecting how expenses appear on financial statements and how an asset's book value declines.

1. Straight-Line Depreciation Method

The **straight-line method** is the most straightforward and commonly used method of depreciation. It assumes that the plant asset will lose an equal amount of value every year over its useful life. This method allocates the same amount of depreciation expense in each period, making it simple to apply and easy to understand.

Formula:

Depreciation Expense = (Cost of the Asset - Salvage Value) / Useful Life

- **Cost of the Asset:** The initial purchase price of the asset.
- **Salvage Value:** The estimated residual value of the asset at the end of its useful life.

- **Useful Life:** The expected duration the asset will be used by the company.

Example:

Assume a machine costs TK. 50,000, has an estimated salvage value of TK. 5,000, and a useful life of 10 years. Using the straight-line method:

Depreciation Expense = (50,000−5,000) / 10 years = TK. 4,500 per year

Thus, TK. 4,500 of depreciation expense will be recognized annually for 10 years. The asset's book value decreases by the same amount each year until it reaches the salvage value at the end of its useful life.

Advantages:

- **Simplicity:** Easy to calculate and apply.
- **Consistency:** Provides uniform expense allocation over the life of the asset, aiding in financial planning and forecasting.

Disadvantages:

- **Assumption of Uniform Usage:** The straight-line method assumes the asset's utility or benefit is the same each year, which may not be realistic for assets that deteriorate more quickly in their early years or that have higher utility at the start.

2. **Units-of-Activity Depreciation Method**

The **units-of-activity method** ties depreciation expense to the actual use or productivity of the asset, rather than time. This method is ideal for assets whose wear and tear are more closely related to how much they are used (e.g., machinery, vehicles). Depreciation is based on the total expected output, mileage, or hours of use during the asset's life.

Formula:

Depreciation Expense = (Cost of the Asset - Salvage Value) / Total Estimated Activity × Actual Activity During Period

- **Total Estimated Activity:** Total expected output, hours of use, or mileage over the asset's entire useful life.
- **Actual Activity During Period:** The actual usage for a specific period (e.g., hours, miles, or units produced).

Example:

Consider a vehicle that costs TK. 60,000, has an expected salvage value of TK. 10,000, and is expected to be driven for 200,000 miles. If the vehicle is driven 20,000 miles in the first year, depreciation for that year is:

Depreciation Expense = (60,000−10,000) / 200,000×20,000 = TK. 5,000

In this case, the depreciation expense will fluctuate based on the vehicle's annual usage. If fewer miles are driven in a subsequent year, the depreciation expense will be lower.

Advantages:

- **Accuracy:** Provides a more precise measure of depreciation tied to actual asset usage.
- **Reflects Productivity:** Matches expense to output, offering a better reflection of asset performance, especially for equipment with irregular usage patterns.

Disadvantages:

- **Complexity:** Requires tracking and estimating usage, which may be burdensome for companies with large fleets of vehicles or heavy machinery.
- **Inconsistency in Expense:** Depreciation expense may fluctuate from year to year, which can complicate financial forecasting and comparisons between periods.

3. **Declining-Balance Depreciation Method**

The **declining-balance method** is an accelerated depreciation method. It allocates more depreciation expense in the early years of an asset's useful life and less in later years. The logic is that many assets provide greater benefits when they are newer and lose utility as they age. This method is particularly useful for assets that deteriorate quickly, such as technology or equipment with high maintenance costs.

The most commonly used version of this method is the **double-declining-balance (DDB)** method, which applies a rate that is twice the straight-line rate.

Formula for DDB:

Depreciation Expense = 2×Straight-Line Depreciation Rate × Book Value at Beginning of Year

- The **Straight-Line Depreciation Rate** is computed as 1 divided by the useful life of the asset.
- The **Book Value at Beginning of Year** is the cost of the asset minus accumulated depreciation.

Example:

Assume the same machine from the straight-line example costs TK. 50,000, has a salvage value of TK. 5,000, and a useful life of 10 years. The straight-line depreciation rate is $1/10=0.10$ or 10%, so the double-declining rate is $2\times10\% = 20\%$.

In the first year, the depreciation expense is:

Depreciation Expense$=2\times10\%\times50{,}000=10{,}000$

In the second year, depreciation is based on the reduced book value of TK. 40,000:

Depreciation Expense$=2\times10\%\times40{,}000=8{,}000$

This process continues, applying the double rate to the declining book value each year until the salvage value is reached.

Advantages:

- **Higher Early-Year Deductions:** Maximizes tax savings or expense recognition in the early years of an asset's life, making it useful for tax planning.
- **Reflects Asset Usage Patterns:** This method better matches the expense to periods when the asset is providing the most significant utility.

Disadvantages:

- **Complexity:** More difficult to calculate and track compared to the straight-line method.
- **Overstates Early Expenses:** High depreciation in the initial years can distort financial performance by reducing profits more drastically early on.

Choosing the Appropriate Depreciation Method

The choice of depreciation method depends on several factors, including:

- **Nature of the Asset:** Assets that wear out or lose value quickly (e.g., machinery, vehicles) may benefit from accelerated methods like declining-balance, while long-lasting assets like buildings may be better suited for straight-line.
- **Accounting Objectives:** If a company wants to smooth out expenses over time, straight-line is preferred. If a company desires higher depreciation expenses for tax or reporting purposes in early years, declining-balance may be appropriate.

- **Usage Patterns:** For assets whose wear is tied directly to usage (e.g., production machines or vehicles), the units-of-activity method offers the most accurate expense allocation.

In practice, companies must balance the method's ease of application with how well it matches the asset's actual usage and the company's financial reporting goals.

Suppose you are given the following data of Zaima and Zunaira Enterprise:

- **Cost of a vehicle:** TK. 13,000
- **Salvage value:** TK. 1,000
- **Estimated useful life in years**: 5
- **Estimated useful life in miles**: 100,000 miles
- **Total depreciable cost** = Cost - Salvage value = TK. 13,000 - TK. 1,000 = **TK. 12,000**

Practical Problems

Now compute depreciation using **Straight-line**, **Units-of-activity**, and **Declining-balance and compare them.**

1. **Straight-line Method**:

The straight-line method allocates the depreciable cost equally across the useful life of the asset.

Annual Depreciation Expense = (Cost - Salvage Value) / Useful Life
= TK. 12,000 / 5
= **TK. 2,400 per year**

Year	Depreciation Expense	Accumulated Depreciation	Book Value
2017	TK. 2,400	TK. 2,400	TK. 10,600
2018	TK. 2,400	TK. 4,800	TK. 8,200
2019	TK. 2,400	TK. 7,200	TK. 5,800
2020	TK. 2,400	TK. 9,600	TK. 3,400
2021	TK. 2,400	TK. 12,000	TK. 1,000

2. **Units-of-Activity Method**:

The units-of-activity method depends on the actual usage (in miles).

- **Depreciation per mile** = Depreciable Cost / Total Estimated Miles = TK. 12,000 / 100,000 miles = **TK. 0.12 per mile**

Let's assume the vehicle was driven as follows each year:

- 2017: 15,000 miles
- 2018: 30,000 miles
- 2019: 20,000 miles
- 2020: 25,000 miles
- 2021: 10,000 miles

Depreciation for each year = Depreciation per mile × Miles driven

Year	Miles Driven	Depreciation Expense	Accumulated Depreciation	Book Value
2017	15,000	TK. 1,800	TK. 1,800	TK. 11,200
2018	30,000	TK. 3,600	TK. 5,400	TK. 7,600
2019	20,000	TK. 2,400	TK. 7,800	TK. 5,200
2020	25,000	TK. 3,000	TK. 10,800	TK. 2,200
2021	10,000	TK. 1,200	TK. 12,000	TK. 1,000

3. **Declining-Balance Method (Double-Declining Balance)**:

For the double-declining balance method, we apply double the straight-line rate to the book value of the asset.

- **Depreciation rate** = 2 × (1 / Useful life) = 2 × (1 / 5) = **40%**

Depreciation for each year = Book Value at the start of the year × Depreciation rate

Year	Beginning Book Value	Depreciation Expense (40%)	Accumulated Depreciation	Book Value
2017	TK. 13,000	TK. 5,200	TK. 5,200	TK. 7,800
2018	TK. 7,800	TK. 3,120	TK. 8,320	TK. 4,680
2019	TK. 4,680	TK. 1,872	TK. 10,192	TK. 2,808

2020	TK. 2,808	TK. 1,123	TK. 11,315	TK. 1,685
2021	TK. 1,685	TK. 685	TK. 12,000	TK. 1,000

Comparison of Depreciation Methods**:**

Year	Straight-line	Units-of-Activity	Declining-Balance
2017	TK. 2,400	TK. 1,800	TK. 5,200
2018	TK. 2,400	TK. 3,600	TK. 3,120
2019	TK. 2,400	TK. 2,400	TK. 1,872
2020	TK. 2,400	TK. 3,000	TK. 1,123
2021	TK. 2,400	TK. 1,200	TK. 685
Total	**TK. 12,000**	**TK. 12,000**	**TK. 12,000**

- **Straight-line** gives uniform depreciation every year.
- **Units-of-activity** varies based on the actual usage, which is more accurate for assets with variable productivity.
- **Declining-balance** is accelerated, giving higher depreciation in earlier years, which is ideal for assets that lose value faster initially.

The total depreciation remains the same for all methods, but each method distributes the expense differently across the asset's life.

Revising Periodic Depreciation for XYZ Ltd.

Scenario: XYZ Ltd. purchased machinery on January 1, 2020, for Tk 120,000. The company initially estimated that the machine would have a useful life of 5 years and a salvage value of Tk 20,000. The company uses the straight-line method for depreciation.

Depreciation per year = (Tk120,000–Tk20,000)/5(Tk 120,000 – Tk 20,000) / 5(Tk120,000–Tk20,000)/5 = Tk 20,000.

After 3 years, on December 31, 2022, XYZ Ltd. decided to revise the estimate of the machine’s useful life to 8 years (an additional 3 years) and reduce the salvage value to Tk 10,000. At this point, the company has already recorded depreciation for the first three years.

You are required to:

1. Compute the accumulated depreciation after three years.

2. Determine the book value of the machinery on December 31, 2022, before the revision.
3. Compute the revised depreciation cost after the revision, considering the new useful life and salvage value.

Step-by-Step Solution:

1. Calculate Accumulated Depreciation after 3 Years:

- Annual depreciation under the original estimate = (Tk120,000–Tk20,000)/5(Tk 120,000 – Tk 20,000) / 5(Tk120,000–Tk20,000)/5 = Tk 20,000 per year.
- Accumulated depreciation after 3 years = Tk 20,000 × 3 = **Tk 60,000**.

2. Determine the Book Value before the Revision:

- Book value = Purchase cost – Accumulated depreciation.
- Book value on December 31, 2022 = Tk 120,000 – Tk 60,000 = **Tk 60,000**.

3. Revised Depreciation Calculation:

Step 1: Compute the new depreciable cost.

- Book value at December 31, 2022 = Tk 60,000.
- Less: Revised salvage value = Tk 10,000.
- New depreciable cost = Tk 60,000 – Tk 10,000 = **Tk 50,000**.

Step 2: Divide by the remaining useful life.

- Remaining useful life = 8 years (new estimate) – 3 years (already used) = 5 years.
- Revised annual depreciation = Tk 50,000 / 5 years = **Tk 10,000** per year.

Conclusion:

- The revised annual depreciation for XYZ Ltd.'s machinery will be **Tk 10,000** for the next 5 years.

Example for Calculation Practice:

Problem: ABC Ltd. bought a vehicle for Tk 500,000 with an estimated useful life of 10 years and a salvage value of Tk 50,000. Annual depreciation under the straight-line method was Tk 45,000 (Tk500,000–Tk50,000)/10 (Tk 500,000 – Tk 50,000) / 10 (Tk500,000–Tk50,000)/10.

After 6 years, the company decided to extend the vehicle's useful life by 4 years (making it 14 years total) and reduced the salvage value to Tk 25,000. Calculate the revised depreciation amount for the remaining years.

Steps:

1. Calculate accumulated depreciation after 6 years.
2. Find the book value before the revision.
3. Calculate the new depreciable cost and divide by the remaining useful life to find the revised depreciation.

Try to solve this one following the steps above!

Account for the Disposal of Plant Assets

In accounting, companies dispose of plant assets (such as equipment or vehicles) that are no longer useful. There are three main methods for disposing of plant assets:

1. **Retirement** – Equipment is scrapped or discarded.
2. **Sale** – Equipment is sold to another party.
3. **Exchange** – Existing equipment is traded for new equipment.

Regardless of the disposal method, the company must determine the **book value** of the plant asset at the date of disposal. The **book value** is the difference between the cost of the plant asset and the accumulated depreciation up to the disposal date. Depreciation must be recorded for the fraction of the year leading up to the disposal.

Retirement of Plant Assets

When an asset is fully depreciated and retired, the book value is zero, and no gain or loss is recognized.

Example 1: Hassan Company retires its computer printers.

- **Cost of the printers**: Tk. 32,000
- **Accumulated depreciation**: Tk. 32,000 (fully depreciated)

Journal Entry:

Accumulated Depreciation - Equipment   Tk. 32,000

Equipment Tk. 32,000

(To record the retirement of fully depreciated equipment)

If an asset is retired before it is fully depreciated, and no cash is received for scrap value, a **loss on disposal** occurs.

Example 2: Shinning Company retires delivery equipment that is not fully depreciated.

- **Cost of the equipment**: Tk. 18,000
- **Accumulated depreciation**: Tk. 14,000
- **Book value**: Tk. 4,000 (loss because no cash is received)

Journal Entry:

Accumulated Depreciation - Equipment Tk. 14,000

Loss on Disposal of Plant Assets Tk. 4,000

Equipment Tk. 18,000

(To record the retirement of delivery equipment at a loss)

Sale of Plant Assets

In the case of a sale, the company compares the book value of the asset to the proceeds received from the sale.

- If proceeds exceed book value: **Gain on disposal**.
- If proceeds are less than book value: **Loss on disposal**.
-

Example 3: Wasim Company sells office furniture.

Cost of the furniture: Tk. 60,000

Accumulated depreciation (as of disposal date): Tk. 49,000

Book value: Tk. 11,000

Proceeds from sale: Tk. 16,000 (gain of Tk. 5,000)

Journal Entry for Depreciation (before the sale):

Depreciation Expense Tk. 8,000

Accumulated Depreciation—Equipment Tk. 8,000

(To record depreciation for the first six months of the year)

Journal Entry for the Sale:

Cash Tk. 16,000

Accumulated Depreciation—Equipment Tk. 49,000

Equipment Tk. 60,000

Gain on Disposal of Plant Assets Tk. 5,000

(To record the sale of office furniture at a gain)

If instead, Wright sold the furniture for Tk. 9,000, there would be a **loss of Tk. 2,000**.

Journal Entry:

Cash Tk. 9,000

Accumulated Depreciation—Equipment Tk. 49,000

Loss on Disposal of Plant Assets Tk. 2,000

Equipment Tk. 60,000

(To record the sale of office furniture at a loss)

Problem: Sale of a vehicle by Abul Auto

Abul Auto has an old vehicle with a cost of Tk. 30,000 and accumulated depreciation of Tk. 16,000.

1. **Scenario (a): Sale for Tk. 17,000 (Gain)**

- **Book value**: Tk. 14,000 (Cost - Accumulated Depreciation = Tk. 30,000 - Tk. 16,000)
- **Proceeds from sale**: Tk. 17,000
- **Gain on disposal**: Tk. 3,000 (Proceeds - Book value = Tk. 17,000 - Tk. 14,000)

Journal Entry:

Cash Tk. 17,000

Accumulated Depreciation—Equipment Tk. 16,000

Equipment Tk. 30,000

Gain on Disposal of Plant Assets Tk. 3,000

(To record the sale of the vehicle at a gain)

2. **Scenario (b): Sale for Tk. 10,000 (Loss)**

- **Book value**: Tk. 14,000
- **Proceeds from sale**: Tk. 10,000
- **Loss on disposal**: Tk. 4,000 (Book value - Proceeds = Tk. 14,000 - Tk. 10,000)

Journal Entry:

Cash Tk. 10,000

Accumulated Depreciation - Equipment Tk. 16,000

Loss on Disposal of Plant Assets Tk. 4,000

Equipment Tk. 30,000

(To record the sale of the vehicle at a loss)

PRACTICAL PROBLEM FOR ACCOUNTING FOR FIXED ASSETS

Problem 8:

Kulsum & Co. purchased a machinery Tk. 5,10,000 on January 1, 2024. Useful life is 5 years, scrap value Tk. 10,000. During 2024, working hours were 2000. Total estimated working hours 25.000.

[Nov.-2010, slightly modified]

Requirement

Compute depreciation for year 2024 under each of the following methods:

1. Straight line
2. Working hours
3. Sum of years digit

Solution:

Computation of Depreciable Value:

Cost	TK. 510000
Less Scrap value	10000
Depreciable Value	**TK. 500000**

1. Depreciation for 2024 = (5,00,000 ÷ 5)= Tk. 1,00,000
2. Depreciation = [(5,00,000 ÷ 25,000)× 2,000] = Tk. 40,000
3. Depreciation for 2001= [5,00,000 ÷ 15 (5 + 4 + 3 + 2 + 1) x 5] = Tk. 1,66,667

Problem 9:

Muntaha Electronic Ltd. purchased machinery for Tk. 3,15,000 on May 1, 2023. It is estimated that it will have a useful life of 10 years, scrap value of Tk. 15,000, production of 2,40,000 units and working hours of 25,000. During 2024 the company uses the machinery for 2650 hours and the machine produces 25,500 units. [November 2006]

Requirements:

From the information given, computer the depreciation charges for 2024 under each of the following methods:-

(a) Straight line method

(b) Units of output method

(c) Working hours

(d) Sum of the years digit method

(e) Declining balances method (use 20% as the annual rate)

Solution:

(a) Straight line method

Depreciable value = Cost – Scrap value

= 315000 – 15000 = 300000

Depreciation per year = $\frac{\text{Depreciation per year}}{\text{Estimated Life}} = ($315000 ÷ 10) = 30000

Assumption:

The company's year end December 31 every year.

Date of purchase - May-1, 2023

Depreciation for 2024 = Tk. 30000

(b) Units of output method

Depreciation per unit = $\frac{\text{Depreciable Value}}{\text{Production Units}} = ($300000 ÷ 240000) = Tk. 1.25

Production units in 2024 = 25500 units

So Depreciation for 2024 = 25500 x Tk. 1.25 = Tk. 31875

(c) Working hours

Depreciation per hour = $\frac{\text{Depreciable Value}}{\text{working hours}}$ = (300000 ÷ 25000) = Tk. 12

Depreciation for 2024 = 2650 hours x Tk. 12 = Tk. 318000

(d) Sum of the years digit method

Sum of the years digit method = Useful life - 10 years

Sum of the 10 years = 1+ 2+ 3+ 4+ 5+6+ 7+ 8+ 9+ 10 = 55

1st year (May-1, 2023 to April-30, 2024) Depreciation = $\frac{300000}{55} \times 10 = 54545$

2nd year (May-1, 2024 to April-30, 2025) Depreciation = $\frac{300000}{55} \times 9 = 49090$

So Depreciation for 2024 :

Jan-1 to April-30, 2024 = $\frac{54545}{12} \times 4 = 18182$

May-1, to Dec. 31, 2024 = $\frac{49090}{12} \times 8 = 32727$

So Total Depreciation for 2024 = (18182 + 32727) = 50909

(e) Declining Balance Method

1st year Depreciation May-1, to Dec. 31, 2023 = 300000 x 20% = 60000

= $60000 \times \frac{8}{12} = 40000$

Cost of the Machine	315000
Less - Depreciation	40000
Carrying value/written down Depreciation	275000
Depreciation for 2024 (20% on 275000)	**55000**

Problem 10:

Rafi Enterprise purchased a factory machine at a cost of Tk. 18000 on January 1, 2020. The machine is expected to have a salvage value of Tk. 2,000 at the end of its 4-year useful life.

[May-2007, slightly modified]

During its useful life the machine is expected to be used 160000 hours. Actual annual hourly use was :

Years	**Hours**
2020	40000
2021	60000
2022	35000
2023	25000

Required: Prepare depreciation schedule for the following methods :

(i) The straight line;

(ii) Units of activity;

(iii) Declining balance using double the straight line rate. 3

Solution:

1. Straight Lime Method

Depreciable value = Cost - Salvage value = (18000 - 2000) = 16000

Depreciation per year = $\frac{\text{Depreciation per year}}{\text{Estimated Life}}$ = (16000 ÷ 4) = Tk. 4000

Depreciation Schedule

Year	**Computation** Depreciable Cost × Dep. Rate	**Annual Depreciation Expenses**	**Accumulated Depreciation**	**Carrying/Book value**
Date of Purchase Jan-1 2020				18000
2020	16000 × 25%	4000	4000	14000
2021	16000 × 25%	4000	8000	10000
2022	16000 × 25%	4000	12000	6000
2023	16000 × 25%	4000	16000	2000

2. Units of Activity Method

Depreciation per hour = $\frac{\text{Depreciable Value}}{\text{working hours}}$ = (16000 ÷ 160000) = Tk. 0.10

Depreciation Schedule

Units of Activity Method

Date of purchase - January-1, 2020 at a cost of tk. 18000

Year	**Computation**		**Annual Depreciation Expenses**	**Accumulated Depreciation**	**Book value**
	Hours Worked	Deprecation per hour			
2020	40000	0.1	4000	4000	14000
2021	60000	0.1	6000	10000	8000
2022	35000	0.1	3500	13500	4500
2023	25000	0.1	2500	16000	2000

3. Depreciation under Double Declining Method:

Rate of normal Depreciation = (100% ÷ 4) = 25%

Double Declining Rate = (25% x 2) = 50%

Depreciation Schedule

Double Declining Method

Date of purchase - January-1, 2020 at a cost of tk. 18000

Year	**Computation**	**Annual Depreciation Expenses**	**Accumulated Depreciation**	**Book value**
	Book value begging of the year × Dep. Rate			
2020	18000 × 50%	9000	9000	9000
2021	9000 × 50%	4500	13500	4500
2022	4500 × 50%	2250	15750	2250
2023	2250 × 50%	250	16000	2000

Adjusted to Tk. 250 because ending book value should not be less than expected salvage value.

Problem 11:

Marium Ceramics purchased a factory machine at a cost of Tk. 18,000 January 1, 2020. Marium Ceramics expects the machine to have a salvage value of Tk. 2000 at the end of its 4-years useful life. During its useful life the machine is expected to be 1,60,000 hours. Actual annual hourly use was **:-**

[May-2011]

Years	**Hours**
2020	40000
2021	60000
2022	35000
2023	25000

Instructions :-- Prepare depreciation schedules for the following methods

(i) Straight line
(ii) Units of Activity
(iii) Declining balance using double the straight line rate.

Solution:

	Tk
Purchase cost of the machine on 01-01-2020	18000
Less: Salvage value at the end of its life of 4 years	2000
Total Depreciable value	**16000**

(i) Straight line depreciation =16000 ÷ 4 = Tk. 4000

(ii) Units of Activity Method = 16000 x 160000 hours of 4 years

Depreciation per hour =

(iii) Double Declining method:

Rate of Normal Depreciation = 100% ÷ 4 = 25%

So Rate of Double Declining = 25% x 2 = 50%

Accrual Basis of Accounting And Adjusting Entries

Accounting methods play a critical role in how businesses recognize their financial transactions. Two commonly used methods are the accrual basis and cash basis of accounting, with the accrual method being the most widely accepted under Generally Accepted Accounting Principles (GAAP). This synopsis explains the accrual basis of accounting, adjusting entries, and how they contribute to the preparation of accurate financial statements.

Fiscal and Calendar Years

A fiscal year is a 12-month period that a company or government uses for accounting purposes and for preparing financial statements. A calendar year, by contrast, runs from January 1 to December 31. Businesses may choose a fiscal year that does not coincide with the calendar year for various reasons, such as aligning with seasonal sales or other industry-specific factors.

Accrual versus Cash-Basis Accounting

- **Accrual-Basis Accounting**: In the accrual system, revenues and expenses are recognized when they are incurred, regardless of when cash is received or paid. This method adheres to the matching principle, which ensures that revenues and expenses are matched in the same period. For instance, if a company delivers goods in December but receives payment in January, the revenue is recognized in December under the accrual method.
- **Cash-Basis Accounting**: The cash basis records transactions only when cash changes hands. Revenues are recognized when cash is received, and expenses are recorded when cash is paid. This method is more straightforward but less accurate for depicting the real financial status of a business, especially if there are significant time lags between providing services and receiving payments.

Recognizing Revenues and Expenses

Revenue recognition is a critical principle in accrual accounting. According to GAAP, revenue should be recognized when it is earned, not necessarily when cash is received. Similarly, expenses are recorded when they are incurred, not when they are paid. This ensures that financial statements reflect the actual financial condition of a business.

Example:

If Zaima's business delivers a service on December 30 but receives payment in January, the revenue for this service must be recognized in December under the accrual method.

The Need for Adjusting Entries

The accrual basis of accounting provides a more accurate reflection of a company's financial position than the cash basis. Adjusting entries are essential to ensure that revenues and expenses are recognized in the correct accounting period. These adjustments align the actual economic events with the recorded financial information and correct any discrepancies arising from timing differences. By preparing and using adjusted trial balances, businesses can produce accurate financial statements that offer valuable insights into their true performance and financial health.

Why Are Adjusting Entries Necessary?

1. To ensure revenue and expense recognition is in accordance with the accrual accounting system.
2. To correct the balances of assets, liabilities, equity, revenues, and expenses.
3. To prepare accurate financial statements that reflect the true financial position and performance.

Types of Adjusting Entries

Adjusting entries can be categorized into two main types: **deferrals** and **accruals**.

1. **Deferrals**:

➢ **Prepaid Expenses**: These are payments made for expenses in advance. For instance, paying for rent or insurance in advance would be recorded as an asset. As the service or time passes, the prepaid expense is converted into an actual expense.

✓ **Example**: If Zaima's business prepays 12 months of rent for 12,000 TK, at the end of each month, 1,000 TK should be recognized as rent expense, and the prepaid rent asset should be reduced.

➢ **Unearned Revenues**: This occurs when a business receives payment before providing goods or services. Until the service is delivered, this is considered a liability.

- ✓ **Example**: If Zaima's business receives 3,000 TK in December for a service to be delivered in January, it should record unearned revenue (liability). Once the service is performed, the liability is reduced, and revenue is recognized.

2. **Accruals**:

   - ➢ **Accrued Revenues**: Revenues earned but not yet received in cash or recorded at the end of the accounting period.
   - ✓ **Example**: If Zaima's business provides 5,000 TK worth of services on December 31, but will not receive payment until January, the company must recognize accrued revenue in December and record it as a receivable.
   - ➢ **Accrued Expenses**: Expenses incurred but not yet paid or recorded at the end of the accounting period.
   - ✓ **Example**: If Zaima's business owes 2,000 TK in wages to employees for work done by December 31 but pays them in January, the company should record the accrued expense in December.

Prepare Adjusting Entries for Deferrals

Adjusting entries for deferrals are necessary to convert prepaid expenses and unearned revenues to the actual amounts incurred or earned during the period.

1. **Prepaid Expenses**:
   - When Zaima's business pays in advance for supplies, rent, or insurance, these are initially recorded as assets. As the prepaid items are consumed or time passes, the value is moved from the asset account to an expense account.
   - **Adjusting Entry Example**:
     - **Debit**: Rent Expense 1,000 TK
     - **Credit**: Prepaid Rent 1,000 TK
2. **Unearned Revenues**:
   - Revenue received before delivering goods or services is initially recorded as a liability. As the company fulfills its obligation, unearned revenue becomes earned and is transferred to the revenue account.
   - **Adjusting Entry Example**:

- **Debit**: Unearned Revenue 3,000 TK
- **Credit**: Service Revenue 3,000 TK

Prepare Adjusting Entries for Accruals

Accrual adjusting entries ensure that revenues earned and expenses incurred are recorded in the correct period, even if cash has not been exchanged.

1. **Accrued Revenues**:
    - Revenue earned but not yet received in cash or recorded by the end of the period is accrued.
    - **Adjusting Entry Example**:
        - **Debit**: Accounts Receivable 5,000 TK
        - **Credit**: Service Revenue 5,000 TK

2. **Accrued Expenses**:
    - Expenses incurred but not yet paid by the end of the accounting period are accrued.
    - **Adjusting Entry Example**:
        - **Debit**: Wages Expense 2,000 TK
        - **Credit**: Wages Payable 2,000 TK

Summary of Basic Relationships

Understanding the relationship between revenues, expenses, and adjusting entries is essential for accurate financial reporting. Adjusting entries:

- Align the recording of revenues and expenses with the period in which they are incurred.
- Convert certain accounts from balances that represent future economic events (e.g., prepaid expenses, unearned revenues) into balances that reflect events that have already occurred.

The Nature and Purpose of an Adjusted Trial Balance

An **adjusted trial balance** is a listing of all the accounts in the general ledger after adjusting entries have been made. It ensures that total debits equal total credits after adjustments. This balance is critical for preparing accurate financial statements, including the income statement, balance sheet, and cash flow statement.

Preparing the Adjusted Trial Balance

Steps to prepare the adjusted trial balance:

1. Start by recording the unadjusted balances from the general ledger.
2. Make any necessary adjusting entries for deferrals and accruals.
3. Post these adjusting entries to the general ledger.
4. Finally, prepare the adjusted trial balance, ensuring that total debits equal total credits.

Unadjusted Trial Balance

Below is an **Unadjusted Trial Balance** as of **31st December 2024**.

Account Title	**Debit (Tk.)**	**Credit (Tk.)**
Cash	50,000	
Accounts Receivable	20,000	
Prepaid Rent	12,000	
Supplies	5,000	
Equipment	100,000	
Accounts Payable		15,000
Unearned Revenue		10,000
Accrued Salaries Payable		8,000
Loan Payable		20,000
Capital (Owner's Equity)		120,000
Service Revenue		60,000
Salaries Expense	15,000	
Rent Expense	9,000	
Utilities Expense	5,000	
Miscellaneous Expense	2,000	
Total	**218,000**	**218,000**

The Unadjusted Trial Balance is **balanced** with **Tk. 218,000** on both sides.

Step 2: Adjusting Entries

We will now do 10 adjusting entries for four categories: **Prepaid Expenses**, **Unearned Revenues**, **Accrued Revenues**, and **Accrued Expenses**.

1. Prepaid Expenses Adjustments

- **Adjusting Entry 1**: Prepaid Rent. Out of Tk. 12,000 prepaid rent, Tk. 3,000 has been used for December.
  - **Debit**: Rent Expense Tk. 3,000
  - **Credit**: Prepaid Rent Tk. 3,000
- **Adjusting Entry 2**: Supplies. Tk. 2,000 worth of supplies have been used.
  - **Debit**: Supplies Expense Tk. 2,000
  - **Credit**: Supplies Tk. 2,000

2. Unearned Revenues Adjustments

- **Adjusting Entry 3**: Unearned revenue. Tk. 5,000 of the unearned revenue has now been earned.
  - **Debit**: Unearned Revenue Tk. 5,000
  - **Credit**: Service Revenue Tk. 5,000
- **Adjusting Entry 4**: Unearned revenue for a project. An additional Tk. 3,000 of unearned revenue is earned in December.
  - **Debit**: Unearned Revenue Tk. 3,000
  - **Credit**: Service Revenue Tk. 3,000

3. Accrued Revenues Adjustments

- **Adjusting Entry 5**: Accrued Service Revenue. Tk. 4,000 of service performed in December but not yet billed.
  - **Debit**: Accounts Receivable Tk. 4,000
  - **Credit**: Service Revenue Tk. 4,000
- **Adjusting Entry 6**: Accrued interest on a customer’s loan for Tk. 2,000.
  - **Debit**: Accounts Receivable Tk. 2,000
  - **Credit**: Interest Revenue Tk. 2,000

4. Accrued Expenses Adjustments

- **Adjusting Entry 7**: Accrued Salaries for Tk. 4,000 not yet paid.
  - ✓ **Debit**: Salaries Expense Tk. 4,000
  - ✓ **Credit**: Accrued Salaries Payable Tk. 4,000
- **Adjusting Entry 8**: Accrued utility expenses for December of Tk. 1,500.
  - ✓ **Debit**: Utilities Expense Tk. 1,500
  - ✓ **Credit**: Accounts Payable Tk. 1,500
- **Adjusting Entry 9**: Interest on loan accrued for Tk. 1,200.
  - ✓ **Debit**: Interest Expense Tk. 1,200
  - ✓ **Credit**: Interest Payable Tk. 1,200
- **Adjusting Entry 10**: Accrued rent for December, Tk. 2,500.
  - ✓ **Debit**: Rent Expense Tk. 2,500
  - ✓ **Credit**: Rent Payable Tk. 2,500

Step 3: Adjusted Trial Balance

After making these adjusting entries, we prepare the **Adjusted Trial Balance** as of **31st December 2024**:

Account Title	Debit (Tk.)	Credit (Tk.)
Cash	50,000	
Accounts Receivable	26,000	
Prepaid Rent	9,000	
Supplies	3,000	
Equipment	100,000	
Accounts Payable		16,500
Unearned Revenue		2,000
Accrued Salaries Payable		12,000
Loan Payable		20,000
Interest Payable		1,200
Rent Payable		2,500
Capital (Owner’s Equity)		120,000
Service Revenue		72,000

Salaries Expense	19,000	
Rent Expense	14,500	
Supplies Expense	2,000	
Utilities Expense	6,500	
Interest Expense	1,200	
Miscellaneous Expense	2,000	
Total	**233,200**	**233,200**

Explanation:

1. **Prepaid Expenses Adjustments** (Rent and Supplies) reduced asset accounts and increased the related expense accounts.
2. **Unearned Revenues Adjustments** reduced liabilities (Unearned Revenues) and increased Service Revenue, recognizing income that was earned.
3. **Accrued Revenues Adjustments** increased Accounts Receivable and recognized revenue for services performed but not yet billed.
4. **Accrued Expenses Adjustments** increased expense accounts (such as Salaries, Utilities, Interest, and Rent) and related liabilities.

The **Adjusted Trial Balance** is now balanced at **Tk. 233,200** on both sides.

Short Questions

1. Define a transaction in accounting.
2. What are the two conditions for an economic event to be considered a transaction?
3. How does the double-entry system differ from the single-entry system?
4. What is the purpose of the double-entry system?
5. Explain the concept of debits and credits in the double-entry system.
6. What is an account in accounting?
7. Name the five main categories of accounts.
8. Explain the accounting equation.
9. How do debits and credits affect different types of accounts?
10. What are the steps involved in recording a transaction?
11. What is a journal, and what is its purpose?
12. Name different types of journals used in accounting.
13. What is the ledger, and how is it used?
14. Explain the process of posting to the ledger.
15. How financial statements are prepared using accounting information?
16. What is the purpose of a trial balance?
17. What are the key components of a balance sheet?

Module C: Analysis of Financial Statements

IBB Syllabus for Module C: Financial Statements, Financial statements according to IFRS. Types of Financial Statements, Objectives and stakeholders of Financial Statements, Analysis of Financial statements, Horizontal and Vertical Analysis, Comparative Financial Statements.

Contents of this Chapter
Financial Statement Analysis
Tools for Financial Statement Analysis:
Classification of Ratios:
Fundamental Ratios
Analysis of Different Ratios
Illustrations
Practical Problems
Short Questions

Financial Statement Analysis

Financial statement analysis involves examining an organization's financial reports to gain an understanding of its financial position. This analysis includes the application of analytical tools and techniques to financial statements and other relevant data to obtain useful information. The goal of financial statement analysis is to identify significant relationships and trends in the data to assess the company’s past performance and current financial position. This information provides insight into the consequences of prior management decisions made by users of financial statements.

One important use of financial statement analysis is by credit analysts who evaluate the creditworthiness of borrowers. Credit analysts review a borrower’s current financial statements and compare them to previous statements to identify changes in the business and areas where changes have occurred. They also consider projected financial statements and compare the projected performance to actual results. Additionally, credit analysts use industry averages to compare a particular business's performance to others in the same industry. This information helps credit analysts determine a borrower's capability to repay a loan.

Tools for Financial Statement Analysis:

Various tools are used to evaluate the significance of financial statement data. Three commonly used tools in financial analysis are:

1. **Horizontal Analysis**, also known as Trend Analysis, evaluates the year-over-year change in each line item of financial statement data over a period of time. This technique is primarily used in intra-company comparisons to determine the increase or decrease expressed as either an amount or a percentage.

The formula to calculate change is: (Current Year Amount – Base Year Amount) / Base Year Amount

2. **Vertical Analysis**, also known as Common Size Analysis, expresses each item in a financial statement as a percentage of a base amount. The value of total assets is used as the base amount for balance sheet items and the value of sales for income statement items. This analysis is used in both intra-company and inter-company comparisons.

In vertical analysis, each line item is compared to revenue (for income statements) or total assets (for balance sheets) as a percentage. Key items evaluated include COGS as a percent of revenue, gross profit as a percent of revenue, SG&A as a percent of revenue, interest as a percent of revenue, EBT as a percent of revenue, tax as a percent of revenue, and net earnings as a percent of revenue.

Sample Balance Sheets using both Horizontal and Vertical Analysis

FY	**Dec 31,22**		**Dec 31,23**		**Dec 31,24**	**%**
Amount	**Tk. (000)**		**Tk. (000)**		**Tk. (000)**	**TBS**
Current Assets						
Cash/Bank Balances	7	0	33	1	147	4
L/C margin	5	0	32	1	35	1
Fixed Deposits/Marketable Securities	0	0	40	1	76	2
Acc. Receivables-Trade	25	1	70	2	200	6
Accounts Receivable - Others	0	0	0	0	0	0
Goods-in-transit	0	0	0	0	0	0
Inventory	88	3	88	3	90	3
Total Inventory	**88**	**3**	**88**	**3**	**90**	**3**
Due from Affiliates - Current	0	0	0	0	0	0
Total Current Assets	**125**	**4**	**263**	**8**	**548**	**17**
Fixed Assets		0		0		0
Gross Fixed Assets	3,766	110	3,818	118	3,892	119
Less: Depreciation	528	15	890	27	1,326	40
Net Fixed Assets	**3,238**	**95**	**2,928**	**90**	**2,566**	**78**
Non-Current Assets		0		0		0
Due from Principal, Emp, Affiliate, & Investment	40	1	40	1	150	5
Advance Income Tax	0	0	0	0	0	0
Deferred Charges,Pre-pymts & Adv.	10	0	14	0	16	0
Total Non-Current Assets	**3,288**	**96**	**2,982**	**92**	**2,732**	**83**
				0		0
Total Assets	**3,413**	**100**	**3,245**	**100**	**3,280**	**100**
Short Term Bank Borrowings	300	9	142	4	161	5
Current Funded Portion of Term Debt	100	3	100	3	100	3
Account Payable - Trade	29	1	9	0	21	1
Accrued Items + Dues to Directors	60	2	48	1	7	0
Provision for Income Tax/Def. I/T	11	0	15	0	20	1
Advance Payment	0	0	0	0	0	0
Dividends Payable	17	0	26	1	36	1
Total Current Liabilities	**517**	**15**	**340**	**10**	**345**	**11**
Long Term Liabilities		0		0		0
Term Loan	1,450	42	1,350	42	1,250	38
Total Liabilities	**1,967**	**58**	**1,690**	**52**	**1,595**	**49**
Net Worth		0		0		0

Paid up Capital	1,250	37	1,250	39	1,250	38
Directors Loan(subordinated)	0	0	0	0	0	0
Retained Earnings	100	3	180	6	274	8
Reserves	96	3	125	4	161	5
Net Worth	**1,446**	**42**	**1,555**	**48**	**1,685**	**51**
Liabilities & Net Worth	**3,413**	**100**	**3,245**	**100**	**3,280**	**100**

Sample Income Statements using both Horizontal and Vertical Analysis

FY Ended	Dec 31,2022		Dec 31,2023		Dec 31,2024	
Period	12 Months		12 Months	12 Months	12 Months	%
Amount	in (000) Taka		in (000) Taka		in (000) Taka	Sales
Gross Sales	1,132	100	1,245	100	1,325	100
Less:VAT	0	0	0	0	0	0
Net Sales	1,132	100	1,245	100	1,325	100
Add: Other Operating Income	0	0	0	0	0	0
Total Sales Revenue	1,132	100	1,245	100	1,325	100
Less :Cost of Goods Sold	681	60	676	54	642	48
Gross Profit/Revenue	**451**	**40**	**569**	**46**	**683**	**52**
0	0	0	0	0	0	0
Less: Selling. Gen. & Admin. Expenses	37	3	44	4	47	4
0	0	0	0	0	0	0
Total Operating Profit (EBITDA)	**414**	**37**	**525**	**42**	**636**	**48**
0	0	0	0	0	0	0
Less: Depreciation	287	25	362	29	436	33
Less: Interest Expense	13	1	13	1	14	1
0		0		0		0
0		0		0		0
Profit Before Taxes & Extra Item	**114**	**10**	**150**	**12**	**186**	**14**
Add: Other Income	0	0	0	0	0	0
0	0	0	0	0	0	0
Income Taxes	11	1	15	1	20	2
0	0	0	0	0	0	0
Net Profit	**103**	**9**	**135**	**11**	**166**	**13**
Reserve	23	2	29	2	36	3
Cash Withdrawals/Dividend	17	2	26	2	36	3
0		0		0		0
Total Changes In Retained Earnings	**63**	**6**	**80**	**6**	**94**	**7**

Ratio Analysis expresses the relationship between selected items of financial statement data. Financial ratios are designed to evaluate the financial performance of a firm and can be expressed as a percentage, rate, or simple proportion. Ratio Analysis is used in all three types of comparisons: intra-company, inter-company, and industry average and ideal ratio.

Classification of Ratios:

1) Classification based on the statement from which the ratios are calculated:

a) Balance Sheet ratios: Based on balance sheet figures,

b) Profit and Loss account ratios: Based on profit and loss account figures,

c) Profit and Loss account and balance sheet ratios: Based on figures from both statements.

2) Classification based on the users of the ratios:

a) From the shareholders point of view

b) From short-term creditors point of view

c) From long-term creditors point of view

3) Classification based on their functions:

a) Liquidity ratios

b) Activity or Efficiency ratio

c) Leverage ratios

d) Coverage ratios

e) Profitability ratio

f) Market value measure

Fundamental Ratios: According to financial spread sheet (FSS) there are six types of ratios, which are as follows:

1) Growth Ratio: It measures the company’s potentiality and performance. It also measures whether the company will survive or not. Like sales growth, asset growth etc.

2) Profitability Ratio: It indicates the efficiency of the unit in generating surplus. In order to have a ratio, we can compare to the factors that regulate the quantum of profit directly like sales and the total asset or equity. Profitability ratios measure the income or operating success of an enterprise. It measures the income or operating success of an enterprise for a given period of time. For example: gross profit margin, net profit margin etc.

3) Coverage Ratio: These ratios measure the ability of a company to generate cash to pay interest and principal repayments. Like: interest coverage ratio.

4) Activity Ratio: It has been widely accepted that the profitability of an enterprise to a large extent depends on its efficient asset utilization or activity performed. Activity ratios measure how efficiently the firm employs the assets. These ratios are also known efficiency ratio or asset management ratio.

5) Liquidity ratio: The liquidity or short-term solvency of an organization can be measured with the help of current ratio and quick ratio. Liquidity implies to the ability of an organization to pay off its short-term obligations with the current assets.

6) Leverage Ratio: It measures the extent to which a firm has been financed by debt. It is also known as debt management ratios. For example: Debt ratio.

Analysis of Different Ratios:

1) Growth Ratios:

Name of Ratio	Components or Formula	**Use**
1. Sales Growth, Sales %	[Current Year Sales- Previous Year Sale) / Previous Year Sale] x 100	Rule of Thumb = Higher is better, comparing with previous years or industry average
2. Net Sales Growth, Composite %	[Current Year Net Sales - Previous Year Net Sale) / Previous Year Net Sale] x 100	Rule of Thumb = Higher is better, comparing with previous years or industry average
3. Net Income Growth, %	[Current Year Net Income - Previous Year Net Income) / Previous Year Net Income] x 100	Rule of Thumb = Higher is better, comparing with previous years or industry average
4. Total Assets Growth, %	[Current Year Assets - Previous Year Assets) / Previous Year Assets] x 100	Rule of Thumb = Higher is better, comparing with

		previous years or industry average
5. Total Liabilities Growth, %	[Current Year Liabilities - Previous Year Liabilities) / Previous Year Liabilities] x 100	Rule of Thumb = Lower is better, comparing with previous years or industry average
6. Net Worth Growth, %	[Current Year Worth - Previous Year Worth) / Previous Year Worth] x 100	Rule of Thumb = Higher is better, comparing with previous years or industry average

2) Profitability Ratios:

Name of Ratio	Components or Formula	**Use**
1. Gross Margin, Composite %	(Gross Profit / Sale) x 100	Indicates the efficiency of management in turning over the company's goods at a profit. Rule of Thumb = 25% to 30%, higher is better
2. Selling, General and Administrative Expenses, %	(Selling, General and Administrative Expenses) / Sale) x 100	Rule of Thumb = Lower is better, comparing with previous years.
3. Cushion (Gross Profit - Selling, General and Administrative Expenses), %	{Gross Profit - (Selling, General and Admin Exp)} / Sale) x 100	Rule of Thumb = Higher is better.
4. Depreciation Amortization, %	(Depreciation / Sale) x 100	Rule of Thumb = Lower is better
5. Operating Profit Margin, %	(EBITDA / Sale) x 100	It is used to measure the general profitability of the concern. Rule of Thumb = 20% to 25%, higher is better.
6. Interest Expense, %	(Interest / Sale) x 100	Rule of Thumb = Lower is better
7. Operating Margin, %	(Profit before tax and extra income / Sale) x 100	Rule of Thumb = Higher is better
8. Net Margin, %	(Net Profit / Sale) x 100	It is used to measure the overall profitability of the concern. Rule of Thumb = Higher is better
9. Return on Assets, %	(Net Profit / Assets) x 100	It is used to measure the profitability of investment.

		Rule of Thumb = Higher is better
10. Return on Equity, %	(Net Profit / Net worth) x 100	It is used to measure the earning power on shareholders' equity. Rule of Thumb = Higher is better
11. Dividend Payout Rate, %	(Dividend / Net Profit) x 100	Rule of Thumb = Lower is better to long term creditors
12. Dividend Yield Ratio	(Annual Dividend Per Share / Stock Price Per Share) x 100	The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price.

3) Coverage Ratios:

Name of Ratio	Components or Formula	**Use**
1. Interest Coverage (x)	(EBIT / Total Interest)	This ratio shows how many times the interest charges are covered by EBIT. Rule of Thumb = Higher is better
2. Debt Service Coverage (x)	[EBITDA / (Total Interest + CMLTD)]	It reflects the company's ability to serve long-term debt. Rule of Thumb = Must be greater than one.

4) Activity Ratios:

Name of Ratio	Components or Formula	**Use**
1. Receivables in days	(Accounts Receivable / Sales) x 365	Shows average number of days receivables are outstanding before being collected.

		Rule of Thumb = Lower is better. Should not more than 1/3rd greater than the company's term of sales.
2. Payables in days	(Accounts Payable / Cost of Goods Sold) x 365	Indicates the average length of time trade debt is outstanding. Rule of Thumb = higher indicates the creditors are not paid in time and lower shows that the business is not taking the full advantage of credit period allowed by the creditors.
3. Inventory in days	(Inventory / Cost of Goods Sold) x 365	Shows average number of days inventory is held before it is turned into accounts receivables through sales. Rule of Thumb = Lower is better compare with previous years.
4. Sales to Total Assets, (x)	(Sales / Total Assets)	Shows how efficiently assets are used to generate sales. Rule of Thumb = Higher is better

5) Liquidity Ratios:

Name of Ratio	Components or Formula	**Use**
1. Working Capital	Current Assets – Current Liabilities	It is a measure of company's liquidity position. Rule of Thumb =Larger is better.
2. Quick Ratio	Cash and Cash Equivalent + Receivables / Current Liabilities	Measures ability to meet current debts with most liquid (quick) assets. Rule of Thumb = 1:1, higher is better.

3. Current Ratio	Current Assets / Current Liabilities	Measures ability to meet current debts with current assets. Rule of Thumb = 2:1, higher is better.
4. Sales to Net Working Capital	(Sales / Net Working Capital)	Rule of Thumb = Higher is better

6) Leverage Ratios:

Name of Ratio	Components or Formula	**Use**
1. Total Liabilities / Net Worth (x)	Total Liabilities / Net Worth	Indicates the extent to which debt financing is used relative to equity financing. Rule of Thumb = 1:1, higher indicates less protection for lenders.
2. Affiliation Exposure / Net Worth, %	(Affiliation Exposure / Net Worth) x 100	
3. Total Liabilities / (Net Worth – Affiliates) (x)	Total Liabilities / (Net Worth –Affiliates)	

Major Ratios used in the Internal Credit Risk Rating system (ICRRS)

1. Leverage (10%)

a) Debt to Tangible Net Worth (DTN): Total Interest-Bearing Liabilities or Financial Debt / Total Tangible Net Worth

b) Debt to Total Assets (DTA): Total Interest-Bearing Liabilities or Financial Debt / Total Assets

2. Liquidity (10%)

a) Current Ratio (CR): Current Assets / Current Liabilities

b) Cash Ratio (Cash): Cash and Easily Marketable Securities / Current Liabilities

3. Profitability (10%)

a) Net Profit Margin (NPM): Net Profit after Tax / Net Sales

b) Return on Assets (ROA): Net Profit after Tax / Total Assets

c) Operating Profit to Operating Assets (OPOA): Operating Profit / Average Operating Assets

4. Coverage (15%)

a) Interest Coverage (IC): Earnings Before Interest and Tax / Interest Expense

b) Debt Service Coverage Ratio (DSCR): Earnings Before Interest Tax Depreciation Amortization / Debts to be Serviced

c) Operating Cash Flow to Financial Debt Ratio (OCDR): Operating Cash Flow / Financial Debt

d) Cash Flow Coverage Ratio (CCR): Cash Flow from Operation / Debts to be Serviced

5. Operational Efficiency (10%)

a) Stock Turnover Days (STD): (Total Inventory / Cost of Goods Sold) * 360

b) Trade Debtor Collection Days (TDCD): (Total Accounts Receivable / Sales) * 360

6. Earning Quality (5%)

a) Operating Cash Flow to Sales (OCFS): Operating Cash Flow / Sales

b) Cash Flow Based Accrual Ratio (CFAR): (Net Income - (Cash Flow from Operating Activities + Cash Flow from Investing Activities)) / Average Net Operating Assets

Illustration 1: ABC Company had the following financial information for the year 2024:

Sales: Tk 5,000,000

Cost of Goods Sold: Tk 3,000,000

Net Income: Tk 500,000

Total Assets: Tk 10,000,000

Total Liabilities: Tk 4,000,000

Shareholders' Equity: Tk 6,000,000

Interest Expense: Tk 100,000

Income Tax Expense: Tk 50,000

Dividends Paid: Tk 200,000

Calculate the following ratios:

1. Gross Profit Margin: Gross Profit Margin = (Sales - COGS) / Sales Gross Profit Margin = (Tk 5,000,000 - Tk 3,000,000) / Tk 5,000,000 Gross Profit Margin = 0.4 or 40%
2. Net Profit Margin: Net Profit Margin = Net Income / Sales Net Profit Margin = Tk 500,000 / Tk 5,000,000 Net Profit Margin = 0.1 or 10%
3. Return on Assets: Return on Assets = Net Income / Total Assets Return on Assets = Tk 500,000 / Tk 10,000,000 Return on Assets = 0.05 or 5%
4. Return on Equity: Return on Equity = Net Income / Shareholders' Equity Return on Equity = Tk 500,000 / Tk 6,000,000 Return on Equity = 0.0833 or 8.33%
5. Debt-to-Equity Ratio: Debt-to-Equity Ratio = Total Liabilities / Shareholders' Equity Debt-to-Equity Ratio = Tk 4,000,000 / Tk 6,000,000 Debt-to-Equity Ratio = 0.6667 or 66.67%
6. Interest Coverage Ratio: Interest Coverage Ratio = Earnings Before Interest and Taxes (EBIT) / Interest Expense EBIT = Net Income + Interest Expense + Income Tax Expense EBIT = Tk 500,000 + Tk 100,000 + Tk 50,000 EBIT = Tk 650,000 Interest Coverage Ratio = Tk 650,000 / Tk 100,000 Interest Coverage Ratio = 6.5
7. Dividend Yield: Dividend Yield = Dividends Paid / Share Price Assuming a share price of Tk 50, Dividend Yield = Tk 200,000 / (Tk 50 x 10,000) Dividend Yield = 4%

Illustration 2: XYZ Ltd. provides you with their financial statements for the years 2023 and 2024. Use the financial statements below to calculate the following ratios:

Balance Sheet:

Particulars	2023 (Taka)	2024 (Taka)
Cash and Cash Equivalents	10,000	15,000
Accounts Receivable	20,000	25,000
Inventory	25,000	30,000
Total Current Assets	55,000	70,000

Property, Plant & Equipment	200,000	225,000
Accumulated Depreciation	(50,000)	(60,000)
Total Assets	**205,000**	**235,000**
Accounts Payable	15,000	20,000
Short-term Loans Payable	20,000	15,000
Total Current Liabilities	35,000	35,000
Long-term Debt	100,000	115,000
Total Liabilities	135,000	150,000
Common Stock	30,000	30,000
Retained Earnings	40,000	55,000
Total Stockholders' Equity	70,000	85,000
Total Liabilities and Stockholders' Equity	**205,000**	**235,000**

Income Statement:

Particulars	2023 (Taka)	2024 (Taka)
Revenue	150,000	175,000
Cost of Goods Sold	90,000	100,000
Gross Profit	60,000	75,000
Selling, General & Administrative Expenses	40,000	45,000
Operating Income	20,000	30,000
Interest Expense	5,000	6,000
Net Income Before Taxes	15,000	24,000
Income Tax Expense	3,000	5,000
Net Income	**12,000**	**19,000**

Liquidity Ratios:

Current Ratio 2021 = 55,000 / 35,000 = 1.57

Current Ratio 2022 = 70,000 / 35,000 = 2.00

Quick Ratio 2021 = (55,000 - 25,000) / 35,000 = 0.86

Quick Ratio 2022 = (70,000 - 30,000) / 35,000 = 1.14

Note that in 2022, the Quick Ratio is the same as in 2021, indicating that the increase in inventory has been matched by an increase in cash and accounts receivable, so the company's liquidity position has remained relatively stable.

Solvency Ratios:

Debt-to-Equity Ratio 2021 = 135,000 / 70,000 = 1.93

Debt-to-Equity Ratio 2022 = 150,000 / 85,000 = 1.76

Debt Ratio 2021 = 135,000 / 205,000 = 0.66

Debt Ratio 2022 = 150,000 / 235,000 = 0.64

These solvency ratios provide an indication of XYZ Ltd.'s ability to meet its long-term obligations. A lower debt-to-equity ratio and debt ratio generally indicate that the company has a stronger financial position and is less risky. In this case, the company's debt-to-equity ratio has decreased from 2021 to 2022, which may indicate an improvement in the company's financial position. However, it's important to compare these ratios with industry benchmarks and historical trends for a more meaningful analysis.

Profitability Ratios:

For 2021:

Gross Profit Margin = (60,000 / 150,000) x 100 = 40%

Net Profit Margin = (12,000 / 150,000) x 100 = 8%

Return on Assets (ROA) = (12,000 / 205,000) x 100 = 5.85%

Return on Equity (ROE) = (12,000 / 70,000) x 100 = 17.14%

Operating Profit Margin = (20,000 / 150,000) x 100 = 13.33%

For 2022:

Gross Profit Margin = (75,000 / 175,000) x 100 = 42.86%

Net Profit Margin = (19,000 / 175,000) x 100 = 10.86%

Return on Assets (ROA) = (19,000 / 235,000) x 100 = 8.09%

Return on Equity (ROE) = (19,000 / 85,000) x 100 = 22.35%

Operating Profit Margin = (30,000 / 175,000) x 100 = 17.14%

These ratios provide insight into the profitability of XYZ Ltd. over the two-year period. We can see that the company's gross profit margin improved slightly from 2021 to 2022, as did its net profit margin. Both ROA and ROE also improved, indicating that the company is using its assets and equity more efficiently to generate profits. The operating profit margin also improved significantly, indicating that the company is managing its costs effectively. Overall, these ratios suggest that XYZ Ltd. is becoming more profitable over time.

Efficiency Ratios:

Inventory Turnover:

2021: Cost of Goods Sold / Average Inventory = 90,000 / ((25,000 + 30,000)/2) = 2.57 times

2022: Cost of Goods Sold / Average Inventory = 100,000 / ((30,000 + 25,000)/2) = 3.20 times

Accounts Receivable Turnover:

2021: Net Credit Sales / Average Accounts Receivable = 150,000 / ((20,000 + 25,000)/2) = 6 times

2022: Net Credit Sales / Average Accounts Receivable = 175,000 / ((25,000 + 20,000)/2) = 8.75 times

Days Inventory Outstanding (DIO):

2021: 365 days / Inventory Turnover = 365 / 2.57 = 142 days

2022: 365 days / Inventory Turnover = 365 / 3.20 = 114 days

Days Sales Outstanding (DSO):

2021: 365 days / Accounts Receivable Turnover = 365 / 6 = 61 days

2022: 365 days / Accounts Receivable Turnover = 365 / 8.75 = 42 days

Note: The above ratios are based on the assumption that the company's financial statements are prepared on an accrual basis. Additionally, these ratios should be analysed in conjunction with other financial ratios and qualitative factors to gain a complete understanding of the company's performance and financial position.

Leverage Ratios:

Debt-to-Equity Ratio: Debt-to-Equity Ratio = Total Debt / Total Equity

Total Debt = Short-term Loans Payable + Long-term Debt Total Equity = Common Stock + Retained Earnings

For 2021: Total Debt = 20,000 + 100,000 = 120,000 Total Equity = 30,000 + 40,000 = 70,000 **Debt-to-Equity Ratio** = 120,000 / 70,000 = 1.71

For 2022: Total Debt = 15,000 + 115,000 = 130,000 Total Equity = 30,000 + 55,000 = 85,000 **Debt-to-Equity Ratio** = 130,000 / 85,000 = 1.53

Debt Ratio: Debt Ratio = Total Debt / Total Assets

For 2021: Total Debt = 20,000 + 100,000 = 120,000 Total Assets = 205,000 Debt Ratio = 120,000 / 205,000 = 0.59

For 2022: Total Debt = 15,000 + 115,000 = 130,000 Total Assets = 235,000 Debt Ratio = 130,000 / 235,000 = 0.55

These ratios can help evaluate the company's leverage and reliance on debt financing.

Coverage Ratios:

Interest Coverage Ratio = Operating Income / Interest Expense

For 2021: Interest Coverage Ratio = 20,000 / 5,000 = 4

For 2022: Interest Coverage Ratio = 30,000 / 6,000 = 5

Debt Service Coverage Ratio = Operating Income / (Interest Expense + Principal Payments)

Assuming no principal payments were made during the year, the Debt Service Coverage Ratio will be the same as the Interest Coverage Ratio.

For 2021: Debt Service Coverage Ratio = 4

For 2022: Debt Service Coverage Ratio = 5

These ratios can provide insight into the company's ability to cover its interest expense and debt obligations. A higher ratio indicates a better ability to cover these costs, while a lower ratio may indicate potential financial strain. It's important to compare these ratios to industry averages and historical performance to fully understand the company's financial position.

Practical Problems

Problem 1: Comparative Balance Sheets of Surma Corporation are presented below**:**

[May-2011 Slightly modified]

Surma Corporation

Balance Sheet

December, 31

	2023	**2022**
Particulars	**Taka**	**Taka**
Cash	4300	3700
Accounts Receivable	21200	23400
Inventory	10000	7000
Land	20000	26000
Building	70000	70000
Accumulated depreciation	-15000	-10000
	110500	**120100**
Accounts payable	12370	31100
Common stock	75000	69000
Retained Earnings	23130	20000
	110500	**120100**

Surma's 2023 income statement included net sales of Tk. 1,00,000 cost of goods sold of Tk. 60,000 and net income of Tk.15000

Compute the following ratios for 2023:-

(a) Current Ratio;

(b) Acid Test Ratio;

(c) Receivable Turnover;

(d) Inventory Turnover

(e) Profit Margin;

(f) Asset Turnover;

(g) Return on Assets;

(h) Return on common stockholders' equity;

(i) Debt to total assets ratio.

Solution:

(a) Current Ratio= $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{4{,}300+21{,}200+10{,}000}{12370} = \frac{35500}{12370}$=2.87%:1

(b) Acid Test Ratio= $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{4{,}300+21{,}200}{12370} = \frac{25500}{12370}$=2.06%:1

(c) Receivable Turnover= $\frac{\text{Net Credit Sales}}{\text{Average Net Receivable}} = \frac{100000}{\frac{21200+23400}{2}} = \frac{100000}{22300}$= 4.48times

= 365 ÷ 4.48= 81.47 days

or, $\frac{\text{Average Receivable}}{\text{Average Daily Sales}} = \frac{22{,}300}{1{,}00{,}000 \div 365} = \frac{22300}{273.973}$= 81.39 days

(d) Inventory Turnover= $\frac{\text{Cost of goods Sold}}{\text{Average Inventory}} = \frac{60{,}000}{\frac{10{,}000+7{,}000}{2}} = \frac{60{,}000}{8{,}500}$ =7.06 times

(e) Profit Margin on sales= $\frac{\text{Net Income}}{\text{Net Sales}} \times 100 = \frac{15{,}000}{1{,}00{,}000} \times 100$ =15%

(f) Asset Turnover= $\frac{\text{Net Sales}}{\text{Average Asset}} = \frac{1{,}00{,}000}{\frac{1{,}10{,}500+1{,}20{,}100}{2}} = \frac{1{,}00{,}000}{1{,}15{,}300} \times 100$= 86.73%

(g) Return on Assets= $\frac{\text{Net Income}}{\text{Average Asset}} = \frac{15{,}000}{2{,}30{,}000} \times 100$= 6.50%

(h) Return on common stockholders equity= $\frac{\text{Net Income (Assumed after Tax)}}{\text{Average Common Stock}} \times 100$=

$\frac{15{,}000}{\frac{75{,}000+69{,}000}{2}} \times 100 = \frac{15{,}000}{72{,}000} \times 100$= 20.53%

(i) Debt to total assets ratio= $\frac{\text{Total Debt}}{\text{Total Asset}}\times 100=\frac{12,370}{1,10,500}\times 100= 11.19\%$

Problem 2:

Meghna Company has the following comparative Balance Sheet Data:

(November 2010, slightly modified)

Meghna Company

December, 31

	2023	2022
	Taka	**Taka**
Cash	15000	30000
Accounts Receivable (net)	65000	60000
Inventory	60000	50000
Plant Assets	205000	180000
	345000	**320000**
Accounts payable	50000	60000
Mortgage payable (15%)	100000	100000
Common stock (10 per)	140000	120000
Retained Earnings	55000	40000
	345000	**320000**

Additional Information for 2023 –

i. Net Income was Tk. 25,000
ii. Sales on accounts were Tk. 4,20,000; Sales Returns and Allowances were Tk. 20,000
iii. Cost of goods sold was Tk. 1,98,000
iv. Net cash provided by operating activities was Tk. 33.000)

Requirements:

Compute the following ratios at December 31, 2023 and make comment on those-

Solution:

(a) Current Ratio= $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{15000+65000+60000}{50000} = \frac{140000}{50000} = 2.8:1$

The Standard ratio is 2: 1 and the calculated ratio is 2.8: 1 which exceeds the standard. So the financial position of **Meghna Company** is sound and ability to pay the current liabilities.

(b) Acid Test Ratio= $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{15000+65000}{50000} = \frac{80000}{50000} = 1.6:1$

The standard ratio is 1:1 and the calculated ratio is 1.6: I which exceeds the stander. So the financial position of **Meghna Company** is sound and it has ability to the current liabilities.

(c) Receivables Turnover= $\frac{\text{Net Credit Sales}}{\text{Average Net Receivable}} = \frac{400000}{\frac{65000+60000}{2}} = \frac{400000}{62500} = 6.4$times

$= 365 \div 6.4 = 57$ days

Normally credit is allowed for 60 to 90 days. This ratio shows 57 days. So the cash collection from Receivable is satisfactory.

(d) Cash Return on sales = $\frac{\text{Net Cash Provided by operating activities}}{\text{Net Sales}} = \frac{33{,}000}{4{,}00{,}000} = 8.25\%$

(e) Cash Debt Average = $\frac{\text{Net Cash Provided by operating activities}}{\text{Average Total liabilities}} = \frac{33{,}000}{\frac{1{,}50{,}000+1{,}60{,}000}{2}} = \frac{33{,}000}{1{,}55{,}000} = 0.2129$ times

(f) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}} = \frac{\text{Sales}-\text{Cost of goods sold}}{\text{Net Sales}} = \frac{4{,}00{,}000 - 1{,}98{,}000}{4{,}00{,}000} \times 100 = 50.5\%$

Standard ratio in this case 20% to 30% and the calculated ratio is 50.5%. So it is exceptionally satisfactory.

(g) Net Profit Ratio $= \frac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100 = \frac{25{,}000}{4{,}00{,}000} \times 100 = 6.25\%$

Standard ratio in this regard is 5% to 10% and the calculated ratio is 6.25% which execeds the lower limit of standard. This ratio is not highly satisfactory.

Problem 3: Hasin Company has the following comparative balance sheet data:-

[November 2006, slightly modified]

Hasin Company

Balance Sheet

December 31

	2023	2022
	Taka	**Taka**
Cash	15000	30000

Accounts Receivable (net)	65000	60000
Inventory	60000	50000
Plant Assets (net)	205000	180000
	345000	**320000**
Accounts payable	50000	60000
Mortgage payable (15%)	100000	100000
Common stock (10 per)	140000	120000
Retained Earnings	55000	40000
	345000	**320000**

Additional information's for 2023.

i. Net income was Tk. 25,000.
ii. Sales on accounts were Tk. 4,20.000. Sales returns and allowances were Tk.20,000.
iii. Cost of goods sold was Tk. 1,98,000.
iv. Net cash provided operating was Tk. 33,000.

Requirements: Computer following ratios Dec. 31, 2023

(a) Current ratio;
(b) Acid test;
(c) Receivable turnover
(d) Cash return on sales
(e) Cash debt average
(f) Gross profit and Net profit ratio

Solution:

(a) Current Ratio= $\frac{\text{Current Assets (cash + Rec.+ Inv.)}}{\text{Current Liabilities}} = = \frac{140000}{50000}$=2.8:1

(b) Acid Test Ratio= $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{80000}{50000}$=1.6:1

(c) Receivables Turnover= $\frac{\text{Receivable (net)}}{\text{RCredit Sales (Net)}} \times 360 = \frac{65,000}{4,00,000} \times 360 = 59$ days

May be taken 365 days in lieu of 360 days

= 365 ÷ 6.4=57 days

Normally credit is allowed for 60 to 90 days. This ratio shows 57 days. So the cash collection from Receivable is satisfactory.

(d) Cash Return on sales = $\frac{\text{Net Cash Provided by operating activities}}{\text{Net Sales}} = \frac{33,000}{4,00,000}$ = 0.0825 : 1=8.25%

(e) Cash Debt Coverage = $\frac{\text{Cash}}{\text{Debt(Mortgage payable)}}$ $=\frac{15,000}{1,00,000}$ = 0.15 : 1

(f) Gross Profit to Sales = $\frac{\text{Gross Profit}}{\text{Net Sales}}$ = $\frac{4,00,000 - 1,98,000}{4,00,000}$×100= 50.5%

Net Profit to Sales = $\frac{\text{Net Profit}}{\text{Net Sales}}$×100= $\frac{25,000}{4,00,000}$×100= 6.25%

Problem 4:

Calculate the important ratios which you think significant in analyzing financial trend of the business: [May-June-2005, slightly modified]

Assets	**2022**	**2023**
	Taka	Taka
Cash	15380	29020
Accounts Receivable	11260	11710
Inventory	56160	49460
Fixed Assets, net of Dep.	217200	219810
	300000	**310000**
Liabilities and Equity		
Accounts payable	20000	18000
Notes payable	12750	7500
Debentures	100000	100000
Retained Earnings	67250	84500
Capital Stock	100000	100000
	300000	**310000**
Sales	180000	200000

Solution:

A. Liquidity Ratios:

i. Current Ratio= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

For 2022= $\frac{82,800}{32,750}$ =2.53 : 1

For 2023= $\frac{30,190}{25,500}$ =3.53 : 1

ii. Liquidity Ratio= $\frac{\text{Liquidit Assets}}{\text{Current Liabilities}}$

For 2022= $\frac{26,640}{32,750}$ = 0.81 : 1

For 2023= $\frac{40,730}{25,500}$ = 1.60 : 1

B. Solvency Ratios

i. Debt Equity Ratio = $\frac{\text{Total liabilities}}{\text{Equity funds}}$

For 2022= $\frac{1,32,750}{1,67,250}$ = 0.79 : 1

For 2023= $\frac{1,25,500}{1,84,500}$ = 0.68 : 1

Alternative way

i. Debt Equity Ratio = $\frac{\text{Long term Debts}}{\text{Equity funds}}$

For 2022= $\frac{100,000}{1,67,250}$ = 0.5979 : 1

For 2023= $\frac{1,00,000}{1,84,500}$ = 0.5420 : 1

C. Activity Ratios

i. Debtors Turnover Ratio = $\frac{\text{Ssles}}{\text{Debtors}}$

For 2022= $\frac{1,80,000}{1,260}$ = 16 times (App)

For 2023= $\frac{2,00,000}{11,710}$ = 17.08 times (App)

On the basis of the above ratios the financial trend of the business is increasing gradually.

Short Questions:

1) What is the primary objective of financial statement analysis?
2) How can financial statement analysis provide insights into management decisions?
3) How do credit analysts utilize financial statement analysis in evaluating a borrower's creditworthiness?
4) What is the difference between horizontal analysis and vertical analysis?
5) How do you calculate the year-over-year change in a specific financial statement item using horizontal analysis?
6) What base amounts are typically used in vertical analysis for balance sheets and income statements?
7) How is ratio analysis used to compare a company's financial performance?
8) What type of ratio is used to evaluate a company's ability to generate cash for debt repayment?
9) How would you calculate sales growth using a growth ratio?
10) Why a higher total asset growth is considered favorable?
11) What does a gross margin ratio tell you about a company's profitability?
12) What is the formula for calculating the operating profit margin, and what does it indicate about a company's performance?
13) What is the purpose of an interest coverage ratio, and why is a higher ratio better?
14) How does the "Receivables in Days" ratio help a company manage its receivables?
15) Why is a lower "Inventory in Days" ratio generally considered better?
16) What is the current ratio, and how is it used to assess a company's liquidity?
17) How does the quick ratio differ from the current ratio in evaluating short-term solvency?
18) What does the debt-to-equity ratio measure, and why is it important for lenders?
19) What factors are assessed in the Internal Credit Risk Rating System (ICRRS) to evaluate a company's profitability?

Module D: Financial Statements

Syllabus for Module D: Financial Statements for different entities, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in equity, Statement of cash flow.

Contents of this Chapter
Financial Statements
Objectives of Financial Statements
Components of Financial Statements
Example Balance Sheet of a Trading Firm
Example Balance Sheet of a Manufacturing Firm
Income Statement (IS)
Structure of income statement
Income Statement for a Trading Firm
Income Statement for a Manufacturing Firm
.Income Statement for a Service-Rendering Firm
Statement of Cash Flows
The Purpose/ Objectives/ Importance of the Statement of Cash Flows
Sections of Cash Flow Statement
Sources of Data to prepare the Cash Flow Statement
Cash Flows Should Be Presented Gross, Not Net
Operating Activities- Direct or Indirect Method?
Cash Flow from Operating Activities: Direct Method
Cash Flow from Operating Activities - Indirect Method
Direct Exchange Transactions
Format and Example of Cash Flow Statement
Interpretation of the Statement of Cash Flows
Real Financial Statements of Manufacturing Firms (Square Pharmaceuticals PLC):
Real Financial Statements of Service Rendering Firms (Grammeen Phone PLC):
Practical Problems
Short Question

Financial Statements

Financial Statements are formal, structured reports that detail the financial activities and status of a business, individual, or entity over a specific period. These records provide a comprehensive view of the organization’s financial condition, addressing both short-term liquidity and long-term solvency. They serve as the primary output of the accounting process, facilitating the communication of critical financial data to various stakeholders.

Financial Statements (FS) are the culmination of the accounting cycle, enabling the transmission of financial insights to relevant users, such as management, investors, creditors, and regulatory bodies.

Objectives of Financial Statements

The main objective of financial statements is to provide useful financial information to various users for making informed decisions related to providing resources to the entity. These statements serve as a crucial tool in answering key questions about a company’s financial health, performance, and cash flow management.

Key Objectives:

1. **Assess Financial Status:**

- **What is the company’s current financial status?** Financial statements help users assess the current financial position of a company by presenting its **assets**, **liabilities**, and **equity** through the **balance sheet**. This provides a snapshot of the company's financial standing at a particular point in time.

2. **Evaluate Operating Results:**

- **What were the company’s operating results for the period?** The **income statement** (or profit and loss statement) provides insights into the company’s performance by showing its revenues, expenses, and profits over a specific period. This helps users determine whether the company is profitable and how efficiently it is managing its operations.

3. **Analyse Cash Flow:**

- **How did the company obtain and use cash during the period?** The **cash flow statement** shows the cash inflows and outflows from operating, investing, and financing activities. It answers how much cash was generated or used and how cash flows are being managed, providing insights into the company's liquidity and ability to meet short-term obligations.

Components of Financial Statements

1. Balance Sheet/Statement of Financial Position
2. Income Statement
3. Statement of Changes in Equity
4. **Cash Flow Statement** and
5. Notes, comprising a summary of significant accounting policies and other explanatory notes.

Balance Sheet/Statement of Financial Position: An In-depth Analysis

The **balance sheet**, also known as the **Statement of Financial Position**, is a critical financial statement that provides an overview of a company’s financial condition at a specific point in time. It is a cornerstone of financial reporting, offering key insights into the resources (assets) that a company controls and the obligations (liabilities) it owes. Additionally, it reveals the owners’ equity, which represents the residual interest in the company's assets after deducting all liabilities.

This document is essential for both internal and external users, including management, investors, creditors, and regulators, as it provides a clear view of the company’s financial standing. The balance sheet adheres to the fundamental **accounting equation**:

Assets=Liabilities + Owners’ Equity

This equation must always remain balanced, which means that every asset of the business is either financed by debt (liabilities) or the owners' capital (equity).

Key Questions Addressed by the Balance Sheet

The balance sheet provides answers to fundamental financial questions such as:

- **What are the company’s resources?**
  These are the assets the company controls and can use for future economic benefits.
- **What are the company’s obligations?**
  These are the liabilities that the company must settle, representing claims from creditors and lenders.

- **What are the company's net assets?**
  This is the owners' equity, which reflects the residual interest in the company's assets after deducting liabilities.

Main Components of the Balance Sheet

The balance sheet is structured into two main sections:

1. **Assets (Uses of Funds)**
2. **Liabilities and Owners' Equity (Sources of Funds)**

These sections provide insights into how a company manages its resources and obligations.

Assets (Uses of Funds)

Assets are the resources that the company controls, which are expected to generate future economic benefits. They are categorized into **current assets** and **non-current assets**.

- **Current Assets**: These assets are expected to be converted into cash, sold, or consumed within one year or an operating cycle, whichever is longer. Common current assets include:
  - **Cash**: Money readily available for use.
  - **Accounts Receivable**: Amounts due from customers for goods or services sold on credit.
  - **Inventory**: Goods that are held for sale in the ordinary course of business.
  - **Prepaid Expenses**: Payments made in advance for services or goods to be received in the future.
- **Non-current (Fixed) Assets**: These assets are long-term resources that the company expects to hold beyond one year. They include:
  - **Long-term Investments**: Investments that the company plans to hold for more than one year.
  - **Property, Plant, and Equipment (PPE)**: Tangible assets used in operations, such as land, buildings, machinery, and furniture.
  - **Intangible Assets**: Non-physical assets like goodwill, patents, and trademarks.
  - **Other Non-current Assets**: Assets like long-term receivables or deferred expenses.

Liabilities and Owners' Equity (Sources of Funds)

This section details the claims against the company's assets. Liabilities are claims from creditors, while equity represents the owners' residual interest.

- **Liabilities**: Liabilities are obligations that arise from past transactions and are expected to result in an outflow of economic resources. They are classified into **current liabilities** and **non-current liabilities**.

➢ **Current Liabilities**: These are obligations expected to be settled within one year or an operating cycle. Examples include:

▪ **Accounts Payable**: Amounts owed to suppliers for goods or services.

▪ **Notes Payable**: Short-term borrowings due within the next year.

▪ **Accrued Expenses**: Expenses that have been incurred but not yet paid, such as salaries or taxes.

➢ **Non-current Liabilities**: Obligations that are due beyond one year. Examples include:

▪ **Long-term Notes Payable**: Borrowings that will be repaid after more than one year.

▪ **Long-term Bank Loans**: Loans with repayment terms extending beyond one year.

▪ **Debentures**: Bonds issued by the company as a means of long-term financing.

- **Owners' Equity**: Owners' equity represents the residual interest in the company's assets after liabilities have been settled. It consists of:

➢ **Paid-up Capital**: The capital invested by the shareholders in exchange for ownership.

➢ **Retained Earnings**: The portion of profits that is retained in the business instead of being distributed as dividends.

➢ **Reserves**: Funds set aside from profits for specific purposes, such as future expansion or contingencies.

Example Balance Sheet of a Trading Firm

In a trading firm, the balance sheet typically reflects a higher proportion of **current assets**, as these businesses primarily engage in buying and selling goods without significant production activities. The company may hold large amounts of inventory and accounts receivable due to its trading activities.

Here is an example balance sheet of a trading firm:

ABC Trading Co. PLC

Balance Sheet

As of December 31, 202X

Assets	Taka	Liabilities and Owners' Equity	Taka
Current Assets		**Current Liabilities**	
Cash	250,000	Accounts Payable	150,000
Accounts Receivable	400,000	Notes Payable	100,000
Inventory	600,000	Accrued Expenses	50,000
Prepaid Expenses	50,000	**Total Current Liabilities**	**300,000**
Total Current Assets	**1,300,000**		
Non-current Assets		**Non-current Liabilities**	
Long-term Investments	200,000	Long-term Notes Payable	200,000
Property, Plant & Equipment	150,000	Long-term Bank Loan	300,000
Goodwill	100,000	**Total Non-current Liabilities**	**500,000**
Total Non-current Assets	**450,000**		
		Owners' Equity	
		Paid-up Capital	600,000
		Retained Earnings	350,000
		Reserves	0
		Total Owners' Equity	**950,000**
Total Assets	**1,750,000**	**Total Liabilities and Equity**	**1,750,000**

In this case, the trading firm has a higher proportion of current assets like inventory and receivables, and its liabilities are primarily short-term due to the nature of its business cycle.

Example Balance Sheet of a Manufacturing Firm

In contrast, a manufacturing firm typically has a significant amount of **fixed assets**, as it involves production activities that require investment in property, plant, and equipment. These firms also have higher non-current liabilities because they often finance their fixed asset purchases through long-term loans or bonds.

Here's an example balance sheet of a manufacturing firm:

XYZ Manufacturing Co. PLC

Balance Sheet

As of December 31, 202X

Assets	**Taka**	**Liabilities and Owners' Equity**	**Taka**
Current Assets		**Current Liabilities**	
Cash	100,000	Accounts Payable	300,000
Accounts Receivable	200,000	Notes Payable	150,000
Inventory	400,000	Accrued Expenses	100,000
Prepaid Expenses	50,000	**Total Current Liabilities**	**550,000**
Total Current Assets	**750,000**		
Non-current Assets		**Non-current Liabilities**	
Long-term Investments	300,000	Long-term Notes Payable	400,000
Property, Plant & Equipment	1,200,000	Long-term Bank Loan	500,000
Intangible Assets (Goodwill)	100,000	Debentures	300,000
Total Non-current Assets	**1,600,000**	**Total Non-current Liabilities**	**1,200,000**
		Owners' Equity	
		Paid-up Capital	700,000
		Retained Earnings	300,000
		Total Owners' Equity	**1,000,000**
Total Assets	**2,350,000**	**Total Liabilities and Equity**	**2,350,000**

This balance sheet illustrates the financial structure of a typical manufacturing firm, which requires significant investment in fixed assets, financed through both equity and long-term liabilities.

Income Statement (IS)

The **Income Statement**, also known as the **Profit and Loss Statement (P&L)**, reports the financial performance of a company over a specified period. It summarizes the company's revenues and expenses, showing how much profit or loss the company generated. The income statement is a critical financial statement that answers questions such as:

- **What revenues did the company generate through its operations?**
- **What costs were incurred to generate these revenues?**

- **What was the company’s net income or net loss during the period?**

An income statement typically includes several key sections: **revenues**, **cost of goods sold**, **gross profit**, **operating expenses**, **other income and expenses**, and **net income**.

Structure of the Income Statement

The income statement follows a structured format, starting with revenues and ending with the calculation of **net income** (or **net loss**). Each section represents a key component of the company’s operations and financial performance.

1. Revenues/Income

Revenue refers to the income generated from the company’s core business activities, such as the sale of goods or services. It represents the gross inflow of economic benefits that increase the owner’s equity. Revenues can be classified into different types, such as:

- **Sales Revenue**: The total amount earned from selling goods or providing services.
- **Other Income**: Income that is not directly related to the company’s main operations, such as interest income or dividends.

Revenue is the first item on the income statement and provides a starting point for understanding the company’s performance.

2. Expenses

Expenses represent the outflows of resources incurred by the company to generate revenues. They are the costs of operating the business and are classified into several categories:

- **Cost of Goods Sold (COGS)**: This includes the direct costs of producing or purchasing the goods sold by the company. For service companies, it may be the cost of providing services.
- **Operating Expenses**: These include general, administrative, and selling expenses, such as salaries, rent, and depreciation.
- **Other Expenses**: These are non-operating expenses like interest on loans or losses on asset sales.

The key goal of the income statement is to calculate **net income**, which is derived by subtracting expenses from revenues.

3. Gross Profit

Gross profit is the difference between **sales revenue** and **cost of goods sold (COGS)**. It represents the profit earned from the company's core business activities before accounting for operating and non-operating expenses.

$$\text{Gross Profit} = \text{Sales} - \text{COGS}$$

Gross profit provides insight into how efficiently a company is managing its production or purchase costs relative to its sales.

4. Operating Profit (EBIT)

Operating Profit, also known as **Earnings Before Interest and Taxes (EBIT)**, is the profit the company generates from its operations after deducting operating expenses but before accounting for interest and taxes.

$$\text{Operating Profit (EBIT)} = \text{Gross Profit} - \text{Operating Expenses}$$

EBIT shows the company's profitability from its core business operations and is a key indicator of operating efficiency.

5. Other Income and Expenses

This section includes non-operating income and expenses, such as:

- **Interest Revenue**: Income earned from investments.
- **Interest Expense**: Costs incurred from borrowing (e.g., interest on loans).
- **Other Gains/Losses**: Gains or losses from selling assets or foreign exchange fluctuations.

These items are subtracted or added to EBIT to arrive at the final **net income**.

6. Net Income or Net Loss

The bottom line of the income statement is **net income** or **net loss**, which is calculated by subtracting total expenses (including taxes, interest, and other non-operating expenses) from total revenues.

Net Income=Total Revenue−Total Expenses

A positive result represents a **net profit**, while a negative result indicates a **net loss**.

Typical Income Statement Formats

Let's now explore the format of income statements for different types of businesses: a trading firm, a manufacturing firm, and a service-rendering firm.

1. Income Statement for a Trading Firm

A trading firm primarily engages in buying and selling goods. The income statement for a trading firm will typically include **cost of goods sold (COGS)** and operating expenses.

ABC Trading Co. PLC

Income Statement for the Year Ended December 31, 202X (Tk.)

Particulars	**Taka**
Revenue	
Sales	xxx
Less: Cost of Goods Sold (COGS)	
Beginning Inventory	xxx
Add: Purchases	xxx
Add: Transportation-In	xxx
Less: Purchase Returns	xxx
Cost of Goods Available for Sale	xxx
Less: Ending Inventory	xxx
Total COGS	xxx
Gross Profit	xxx
Operating Expenses	
Salaries Expense	xxx
Depreciation Expense	xxx
Rent Expense	xxx
Miscellaneous Expenses	xxx
Total Operating Expenses	xxx
Operating Income (EBIT)	xxx

Other Income and Expenses	
Add: Interest Revenue	xxx
Less: Interest on Notes Payable	xxx
Net Income Before Taxes	xxx
Less: Taxes	xxx
Net Income	xxx

2. Income Statement for a Manufacturing Firm

A manufacturing firm has more complex cost structures, including direct material, direct labour, and manufacturing overhead. The **Cost of Goods Sold** (COGS) is calculated by accounting for the production process.

XYZ Manufacturing Co. PLC

Income Statement for the Year Ended December 31, 202X (Tk.)

Particulars	**Taka**
Revenue	
Sales	xxx
Less: Cost of Goods Sold (COGS)	
Beginning Raw Material Inventory	xxx
Add: Raw Material Purchases	xxx
Less: Ending Raw Material Inventory	xxx
Direct Material Used	xxx
Add: Direct Labor	xxx
Add: Factory Overhead	xxx
Total Manufacturing Cost	xxx
Add: Beginning Work-in-Process Inventory	xxx
Less: Ending Work-in-Process Inventory	xxx
Cost of Goods Manufactured	xxx
Add: Beginning Finished Goods Inventory	xxx
Less: Ending Finished Goods Inventory	xxx
Total COGS	xxx
Gross Profit	xxx
Operating Expenses	

Selling Expenses	xxx
General and Administrative Expenses	xxx
Operating Income (EBIT)	xxx
Other Income and Expenses	
Add: Interest Revenue	xxx
Less: Interest on Notes Payable	xxx
Net Income Before Taxes	xxx
Less: Taxes	xxx
Net Income	xxx

3. **Income Statement for a Service-Rendering Firm**

A service firm does not sell physical goods, so the income statement does not include COGS. The focus is on operating expenses directly associated with providing services.

Shiblu Service Co. PLC

Income Statement for the Year Ended December 31, 202X (Tk.)

Particulars	**Taka**
Revenue	
Service Revenue	xxx
Less: Operating Expenses	
Salaries and Wages	xxx
Office Supplies	xxx
Depreciation Expense	xxx
Rent Expense	xxx
Miscellaneous Expenses	xxx
Total Operating Expenses	xxx
Operating Income (EBIT)	xxx
Other Income and Expenses	
Add: Interest Revenue	xxx
Less: Interest on Notes Payable	xxx
Net Income Before Taxes	xxx
Less: Taxes	xxx
Net Income	xxx

Statement of Cash Flows

A statement of cash flows is a financial statement which summarizes cash transactions of a business during a given accounting period and classifies them under three heads, namely, cash flows from operating, investing and financing activities. It shows how cash moved during the period. The term cash as used in the statement of cash flows refers to both cash and cash equivalents. A cash flow statement provides relevant information in assessing a company's liquidity, quality of earnings and solvency.

The Purpose/ Objectives/ Importance of the Statement of Cash Flows

The purpose of the statement of cash flows is to highlight the major activities that directly and indirectly impact cash flows and hence affect the overall cash balance. Managers focus on cash for a very good reason—without sufficient cash balance at the right time; a company may miss golden opportunities or may even fall into bankruptcy.

The ***cash flow statement*** answers questions that cannot be answered by the income statement and a balance sheet. For example, a statement of cash flows can be used to answer questions like where did the company get the cash to pay a dividend of nearly Tk.140 million in a year in which, according to the income statement, it lost more than Tk.1 billion? To answer such questions, familiarity with the statement of cash flows is required.

The cash flow statement is a valuable analytical tool for managers as well as for investors and creditors, although managers tend to be more concerned with forecasted statements of cash flows that are prepared as a part of the budgeting process.

The Cash flow statement can be used to answer crucial questions such as the following:

1. Is the company generating sufficient positive cash flows from its ongoing operations to remain viable?
2. Will the company be able to repay its debts?
3. Will the company be able to pay its usual dividends?
4. Why is there a difference between net income and net cash flow for the year?
5. Ability to meet the **unforeseen situation** and to take advantage of new business opportunities
6. To identify and assess the **sources and uses** of cash during a period.
7. To help **detection of Frauds** in the accounts

8. To facilitate the effective comparison

For the statement of cash flows to be useful to managers and others, companies must employ a common definition of cash. It is also important that a statement be constructed using consistent guidelines for identifying activities that are sources of cash and uses of cash. The proper definition of cash and the guidelines to use in identifying sources are discussed in the coming paragraphs.

Definition of Cash

In preparing a statement of cash flows, the term cash is broadly defined to include both cash and cash equivalents. Cash equivalents consist of short-term, highly liquid investments such as treasury bills, commercial paper, and money market funds that are made solely to generate a return on temporary idle funds. Instead of simply holding cash, most companies invest their excess cash reserves in these types of interest-bearing assets that can be easily converted into cash. These short-term liquid investments are usually included in marketable securities on the balance sheet. Since such assets are equivalent to cash, they are included with cash in preparing a statement of cash flows

Sections of Cash Flow Statement

The cash flow statement is usually divided into three sections: Operating, investing and financing activities.

Operating Activities

Operating activities involve the cash effects of transactions that enter into the determination of net income, such as cash receipts from sales of goods and services and cash payments to suppliers and employees for the acquisition of inventory and expenses. Generally speaking, this includes all transactions affecting current assets. It also includes all transactions affecting current liabilities except for issuing and repaying a note payable. Operating activities also include changes in noncurrent balance sheet accounts that directly affect net income such as the Accumulated Depreciation and Amortization account. Cash flows from operating activities can be computed using two methods. One is the Direct Method and the other Indirect Method.

Investing Activities

Investing activities involve acquiring or disposing of noncurrent assets and include acquiring or selling property, plant, and equipment; acquiring or selling securities held for long-term investment, such as bonds and stocks of other companies; and lending money to another entity and the subsequent collection of the loan. However, changes in noncurrent assets that directly affect net income, such as depreciation and amortization charges, are classified as operating activities.

Financing Activities

Borrowing from creditors or repaying creditors as well as transactions with the company's owners such as obtaining capital from owners and providing them with a return on, and a return of their investment are classified as financing activities. For example, when a company borrows money by issuing a bond, the transaction is classified as a financing activity. However, transactions with creditors which affect the net income are classified as operating activities. For example, interest on the company's debt is included in operating activities rather than financing activities because interest is deducted as an expense in determining net income. In contrast, dividend payments to owners do not affect net income and therefore are classified as financing rather than operating activities.

Most changes in current liabilities are considered to be operating activities unless the transaction involves borrowing money directly from a lender, as with a note payable, or repaying such as debt. Transactions involving accounts payable, wages payable, and taxes payable are included in operating activities rather than financing activities since these transactions occur on a routine basis and involve the company's suppliers, employees, and the government rather than lenders.

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Some cash flows relating to investing or financing activities are classified as operating activities. For example, receipts of investment income (interest and dividend) and payment of interest to lenders are classified as operating activities. Conversely, some cash flows relating to operating activities are classified as investing or financing activities. For example, the cash received from the sale of property, plant, and equipment at a gain, although reported in the income statement, is classified as an investing activity, and effects of the related gain would not be included in net cash flow from operating activities. Likewise, a gain or loss on the payment of the debt would generally be part of the cash outflow related to the repayment of the amount borrowed, and therefore it is a financing activity.

Below is the typical classification of cash receipts and payments according to operating, investing and financing activities.

	Activities	Source
1	**Operating Activities:** *Cash inflows*: From sales of goods or services. From interest and dividends *Cash outflows*: To suppliers for inventories. To employees for services. To the government for taxes. To lenders for interest. To others for expenses.	Income Statement / Current Assets and Liabilities Items
2	**Investing Activities:** *Cash inflow*: From the sale of property, plant and equipment. From the sale of debt or equity securities of other entities. From the collection of principles on loans to other entities. *Cash Outflows*: To purchase property, plant and equipment. To purchase debt or equity securities of other entities. To make loans to other entities.	Generally Long -term Asset Items
3	**Financing Activities:** ***Cash inflows:*** From the sale of equity securities. From issuance of debt (bonds and notes). ***Cash outflows:*** To stockholders as dividends To redeem long-term debt or reacquire capital stock.	Generally Long-term Liability and Equity Items

Sources of Data to prepare the Cash Flow Statement

Unlike the major financial statements, the cash flow statement is not prepared from the adjusted trial balance. The information to prepare this statement usually comes from three sources:

1. **Comparative balance sheets** provide the amount of the changes in assets, liabilities, and equities from the beginning to the end of the period.

2. **Current income statement data** help the reader determine the amount of cash provided by or used by operations during the period.
3. **Selected transaction data** from the general ledger provide additional detailed information needed to determine how cash was provided or used during the period.

Preparing the statement of cash flows from the data sources above involves three major steps:

Step 1-. Determine the change in cash:

This procedure is straightforward because the difference between the beginning and the ending cash balance can be easily computed from an examination of the comparative balance sheet.

Step 2. Determine the net cash flow from operating activities:

This procedure is complex. It involves analyzing not only the current year's income statement but also comparative balance sheets and selected transition data.

Step 3. Determine net cash flows from investing and financing activities:

All other changes in the balance sheet accounts must be analyzed to determine their effects on cash.

Other Issues in Preparing the Cash Flow Statement

We must consider several other issues before we can illustrate the preparation of a cash flow statement that would be acceptable for external financial reporting. These issues are (1) whether the statement should be presented gross or net basis, (2) whether operating activities should be presented using the direct or indirect method, and (3) whether direct exchanges should be reported on the statement of cash flows.

Cash Flows Should Be Presented Gross, Not Net

For both financing and investing activities, items on the statement of cash flows should be presented in gross amounts rather than in net amounts. To illustrate, suppose that Mr. Karim purchases Tk. 450 million in the property during the year and sells other property for Tk. 200 million. Instead of showing the net change of Tk. 250 million, the company must show the gross amounts of both the purchases and the sales. The purchases would be recorded as a use of cash, and the sales would be recorded as sources of cash. Similarly, if Abbas receives Tk. 120 million from the issuance of long-term bonds and then pays out Tk. 40 million to retire other bonds, the two transactions must be reported separately on the statement of cash flow rather than being netted against each other. However, the gross method of reporting does not extend to operating activities, where debits and credits to an account are ordinarily netted against each other on the statement of cash flows. For example, if Karim adds Tk.

500 million to its accounts receivable as a result of sales during the year and Tk. 420 million of receivables is collected, only the net increase of Tk. 80 million would be reported on the statement of cash flows.

Operating Activities- Direct or Indirect Method?

The net result of the cash inflows and outflows arising from operating activities is known formally as the net **cash provided by operating activities. This figure can be calculated by either the direct or the indirect method.**

Cash Flow from Operating Activities: Direct Method

The cash flows from operating activities can be prepared using two different methods known as the direct method and the indirect method. The direct method to calculate cash flow from operating activities involves the determination of various types of cash receipts and payments such as cash receipts from customers, cash paid to suppliers, cash paid for salaries, etc. and then putting them together under the cash flow from the operating section of cash flow statement. These figures are calculated using the beginning and ending balances of various accounts of the business and the net increase or decrease in the account. The exact formulas to calculate various cash inflows and outflows vary. The most important ones are given below:

Formulas

Cash Receipts from Customers =	
+	Net Sales
+	Beginning Accounts Receivable
−	Ending Accounts Receivable
Cash Payments to Suppliers =	
+	Purchases
+	Ending Inventory
−	Beginning Inventory
+	Beginning Accounts Payable
−	Ending Accounts Payable
Cash Payments to Employees =	
+	Salaries Expense
+	Beginning Salaries Payable

-	Ending Salaries Payable
Cash Payments for Purchase of Prepaid Assets =	
+	Expired Rent, Expired Insurance etc.
+	Ending Prepaid Rent, Prepaid Insurance etc.
−	Beginning Prepaid Rent, Prepaid Insurance etc.
Interest Payments =	
+	Interest Expense
+	Beginning Interest Payable
-	Ending Interest Payable
Income Tax Payments =	
+	Income Tax Expense
+	Beginning Income Tax Payable
-	Ending Income Tax Payable

In the formulas given above it is assumed that accounts receivable are only used for credit sales. It is also assumed that all sales are on credit. If there are cash sales as well, then receipts from cash sales must be included in the cash receipts from customers to obtain a correct figure of cash flow from operating activities.

Similarly, it is assumed that accounts payable are used merely for purchases on account and that all purchases are on credit. If there are cash purchases as well, then cash payments for them must be included in the cash paid to suppliers. It is important to note that there may be receipts & payments other than those discussed above.

Once all the cash inflows and outflows from operating activities are calculated, they are added to the operating section of cash flows to obtain the net cash flow from operating activities.

The following example shows the format and calculation of cash flow from operating activities using the direct method.

Example 1

Prepare the cash flows from the operating activities section of the cash flow statement by the direct method using the following information:

December 31	**2024**	**2023**
Accounts Receivable	Tk.34,130	Tk. 28,410

Prepaid Rent	20,000	25,000
Prepaid Insurance	6,800	6,000
Inventory	23,030	15,450
Accounts Payable	14,590	31,300
Salaries Payable	8,310	5,120
Interest Payable	700	360
Income Tax Payable	2,340	2,000
Year Ended December 31	**2024**	
Net Sales	104,970	
Salaries Expense	8,610	
Rent Expense	5,000	
Insurance Expense	3,200	
Interest Expense	1,650	
Tax expense	1,700	
Purchase	50,000	

Solution:

Cash Flow from Operating Activities:	
Cash Receipts	
From Customers (1)	Tk.99,250
Cash Payments	
To Suppliers (2)	−74,290
To Employees (3)	−5,420
For Purchase of Prepaid Assets (4)	−4,000
Interest (5)	−1,310
Income Tax (6)	−1,360
Net Cash Flow from Operating Activities	Tk. 12,870

Working Notes

1) Net sales + Beginning Account Receivable – Ending Account Receivable = Tk. (104,970 + 28,410 - 34,130)= Tk.99,250
2) Purchase + Ending Inventory - Beginning Inventory+ Beginning Accounts Payable- Ending Accounts Payable =Tk. (50,000+23,030 - 15,450 + 31,300 -14,590) = Tk.74,290

3) Salaries Expense + Beginning Salaries Payable- Ending Salaries Payable =Tk.(8,610+ 5,120 - 8,310)= Tk.5,420
4) Expired Rent, Expired Insurance etc. + Ending Prepaid Rent, Prepaid Insurance etc.- Beginning Prepaid Rent, Prepaid Insurance etc. Tk. (5,000 +3,200 +20,000 + 6,800 - 25,000 - 6,000) =Tk.4,000
5) Interest Expense + Beginning Interest Payable - Ending Interest Payable =Tk.(1,650+360 – 700) = Tk. 1,310
6) Income Tax Expense + Beginning Income Tax Payable - Ending Income Tax Payable =Tk.(1,700+2000- 2,340) = Tk.1,360

Cash Flow from Operating Activities - Indirect Method

In the indirect method, the net income figure from the income statement is used to calculate the amount of net cash flow from operating activities. Since the income statement is prepared on an accrual basis in which revenue is recognized when earned and not when received therefore net income does not represent the net cash flow from operating activities and it is necessary to adjust net income for those items which affect it although no actual cash is paid or received against them.

Formula

The following is the indirect method formula to calculate net cash flow from operating activities:

Cash Flows from Operating Activities:	
	Net Income
+	Non-Cash Expenses:
	(Depreciation, Depletion & Amortization Expenses)
+	Non-Operating Losses:
	(Loss on Sale of Non-Current Assets)
−	Non-Operating Gains:
	(Gain on Sale of Non-Current Assets)
+	Decrease in Current Assets:
	(Accounts Receivable, Prepaid Expenses, Inventory etc.)
−	Increase in Current Assets
+	Increase in Current Liabilities:
	(Accounts Payable Accrued Liabilities, Income Tax Payable etc.)
−	Decrease in Current Liabilities
=	Net Cash Flow from Operating Activities

The following example shows the format of the cash flows from the operating activities section of the cash flows statement prepared using the indirect method:

Example 2

Prepare the cash flows from the operating activities section of the cash flow statement by the indirect method using the following information:

Net Income	Tk.7,000
Depreciation Expense	1,000
Increase in Accounts Receivable	4,400
Increase in Prepaid Rent	7,000
Decrease in Prepaid Insurance	1,300
Increase in Accounts Payable	14,000
Increase in Wages Payable	1,000
Decrease in Income Tax Payable	700
Gain on Sale of Equipment	1,800

Solution:

Cash Flows from Operating Activities:	
Net Income	Tk.7,000
Depreciation Expense	1,000
Gain on Sale of Equipment	−1,800
Increase in Accounts Receivable	−4,400
Increase in Prepaid Rent	−7,000
Decrease in Prepaid Insurance	1,300
Increase in Accounts Payable	14,000
Increase in Wages Payable	1,000
Decrease in Income Tax Payable	−700
Net Cash Flow from Operating Activities	Tk.10,400

Direct Exchange Transactions

Companies sometimes enter into direct exchange transactions in which balanced sheet items are swapped. For example, a company might issue common stock that is directly exchanged for the property. Or a company might induce its creditors to swap their-term debt for common stock. Or a company might acquire equipment under a long-term lease contract offered by the seller.

Direct exchange transactions are not reported on the statement of cash flows. However, such direct exchange transactions are disclosed in a separate schedule that accompanies the statement.

Format and Example of Cash Flow Statement

Following is a Cash Flow Statement prepared using the indirect method:

ABC Company PLC **Cash Flow Statement** For the Year Ended Dec 31, 2015		
Cash Flows from Operating Activities:		
Net income	Tk.489,000	
Depreciation Expense	112,400	
Loss on Sale of Equipment	7,300	
Gain on Sale of Land	−51,000	
Increase in Accounts Receivable	−84,664	
Decrease in Prepaid Expenses	8,000	
Decrease in Accounts Payable	−97,370	
Decrease in Accrued Expenses	−113,860	
Net Cash Flow from Operating Activities		Tk.269,806
Cash Flows from Investing Activities:		
Sale of Equipment	Tk.89,000	
Sale of Land	247,000	
Purchase of Equipment	−300,000	
Net Cash Flow from Investing Activities		36,000
Cash Flows from Financing Activities:		
Payment of Dividends	−Tk.90,000	
Payment of Bond Payable	−200,000	
Net Cash Flow from Financing Activities		−290,000
Net Change in Cash		Tk.15,806
Beginning Cash Balance		319,730
Ending Cash Balance		Tk.335,536

Interpretation of the Statement of Cash Flows

The completed statement of cash flows of ABC Company PLC provides a very favourable picture. The net cash flow from operations is a healthy Tk. 269,806. This positive cash flow permitted the company to make substantial additions to its equipment and to pay off a substantial portion of its bond payable, if similar conditions prevail in the future, it can continue to finance substantial growth from its cash flows without the necessity of raising debt or selling stock.

When interpreting a statement of cash flows, it is particularly important to scrutinize the net cash provided operating activities; this figure provides a measure of how successful the company is in generating cash continuously. A negative cash flow from operating activities would usually be a sign of fundamental difficulties. A positive cash flow from operations is necessary to avoid liquidating assets or borrowing money just to sustain day-to-day operations.

Real Financial Statements of Manufacturing Firms (Square Pharmaceuticals PLC):

SQUARE PHARMACEUTICALS PLC.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

Particulars	Notes	Amount in Taka	
		30 June 2023	30 June 2022
ASSETS			
Non-Current Assets:		34,585,613,547	34,786,763,350
Property, Plant and Equipment	4	21,767,202,106	22,861,293,922
Investment in Subsidiaries and Associates	5	2,624,852,483	2,572,322,483
Investment in Marketable Securities	6	4,589,867,031	4,346,770,865
Long Term Investment - Others	7	5,603,691,927	5,006,376,080
Current Assets:		70,169,514,926	62,748,423,516
Inventories	8	10,051,709,290	8,176,775,798
Trade and Other Receivables	9	6,461,221,914	3,395,080,462
Advances, Deposits and Prepayments	10	3,577,391,473	2,272,165,190
Cash and Cash Equivalents	11	50,079,192,249	48,904,402,066
TOTAL ASSETS		104,755,128,473	97,535,186,866
EQUITY AND LIABILITIES			
Shareholders' Equity:		100,516,964,058	93,007,355,089
Share Capital	12	8,864,510,100	8,864,510,100
Share Premium		2,035,465,000	2,035,465,000
General Reserve		105,878,200	105,878,200
Fair Value Reserve	13	734,507,296	830,615,740
Retained Earnings	14	88,776,603,462	81,170,886,049
Non-Current Liabilities:		1,026,086,605	1,178,740,290
Deferred Tax Liabilities	15	1,026,086,605	1,178,740,290
Current Liabilities:		3,212,077,810	3,349,091,487
Trade Payables	16	799,397,133	625,984,907
Other Payables	17	1,682,969,880	1,501,431,206
Current Tax Liabilities	18	356,095,553	911,504,873
Accrued Expenses	19	214,617,454	180,534,472
Unclaimed Dividend	20	158,997,790	129,636,029
TOTAL LIABILITIES		4,238,164,415	4,527,831,777
TOTAL EQUITY AND LIABILITIES		104,755,128,473	97,535,186,866
Net Assets Value (NAV) per Share	29	113.39	104.92

The annexed notes form an integral part of these financial statements.

Signed in terms of our separate report of even date annexed

Samuel S Chowdhury
Chairman

Tapan Chowdhury
Managing Director

Khandaker Habibuzzaman
Company Secretary

AKM Rahmat Ullah, FCA, CPFA
Partner
Ahmed Zaker & CO.
Chartered Accountants
Enrollment No-0719

23 October 2023, Dhaka
DVC: [illegible]

SQUARE PHARMACEUTICALS PLC.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

Particulars	Notes	Amount in Taka	
		2022-2023	2021-2022
Gross Revenue	21	69,573,802,661	66,406,959,950
Less: Value Added Tax		9,185,006,544	8,809,018,591
Net Revenue		60,388,796,117	57,597,941,359
Cost of Goods Sold	22	(30,514,414,228)	(27,958,026,980)
Gross Profit		29,874,381,889	29,639,914,379
Operating Expenses:		(13,228,109,690)	(11,771,769,958)
Selling and Distribution Expenses	23	(11,710,765,244)	(10,439,270,466)
Administrative Expenses	24	(1,517,322,480)	(1,332,470,001)
Finance Cost		(21,966)	(29,491)
Other Operating Income	25	1,228,423,054	636,583,904
Profit from Operations		17,874,695,253	18,504,728,325
Other Income	26	4,277,283,291	3,571,059,544
Profit before WPPF & WF		22,151,978,544	22,075,787,868
Allocation for WPPF & WF		(1,054,856,121)	(1,051,227,994)
Profit before Tax		21,097,122,423	21,024,559,874
Income Tax Expenses:	27	(4,626,894,910)	(4,607,063,271)
Current Tax (Expense)		(4,768,869,879)	(4,618,549,626)
Deferred Tax (Expense)/Income		141,974,969	11,486,354
Net Profit after Tax		16,470,227,513	16,417,496,603
Other Comprehensive Income:			
Unrealised Gain/(Loss) on FVOCI Financial Assets:		(96,108,444)	(309,010,404)
Unrealised Gain/(Loss) for the Period	28	(106,787,160)	(393,636,776)
Deferred Tax (Expense)/Income	15.2	10,678,716	84,626,372
Total Comprehensive Income for the Year		16,374,119,069	16,108,486,199
Earnings per Share (EPS)	30	18.58	18.52

The annexed notes form an integral part of these financial statements.

Signed in terms of our separate report of even date annexed

Samuel S Chowdhury
Chairman

Tapan Chowdhury
Managing Director

Khandaker Habibuzzaman
Company Secretary

AKM RAHMAT ULLAH, FCA, CPFA
Partner
Ahmed Zaker & CO.
Chartered Accountants
Enrollment No-0719

23 October 2023, Dhaka
DVC: 2310230719AS692444

SQUARE PHARMACEUTICALS PLC.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 30 June 2023

Particulars	Share Capital	Share Premium	General Reserve	Fair Value Reserve	Retained Earnings	Total
	Taka	Taka	Taka	Taka	Taka	Taka
As At 01 July 2022	**8,864,510,100**	**2,035,465,000**	**105,878,200**	**830,615,740**	**81,170,886,049**	**93,007,355,089**
Net Profit after Tax	-	-	-	-	16,470,227,513	16,470,227,513
Other Comprehensive Income (Net of Tax)	-	-	-	(96,108,444)	-	(96,108,444)
Cash Dividend for the year 2021-2022	-	-	-	-	(8,864,510,100)	(8,864,510,100)
As At 30 June 2023	**8,864,510,100**	**2,035,465,000**	**105,878,200**	**734,507,296**	**88,776,603,462**	**100,516,964,058**

Proposed Dividend (Cash @ 105%)	9,307,735,605

For the Year Ended 30 June 2022

Particulars	Share Capital	Share Premium	General Reserve	Fair Value Reserve	Retained Earnings	Total
	Taka	Taka	Taka	Taka	Taka	Taka
As At 01 July 2021	**8,864,510,100**	**2,035,465,000**	**105,878,200**	**1,139,626,144**	**70,072,095,506**	**82,217,574,950**
Net Profit after Tax	-	-	-	-	16,417,496,603	16,417,496,603
Other Comprehensive Income (Net of Tax)	-	-	-	(309,010,404)	-	(309,010,404)
Cash Dividend for the year 2020-2021	-	-	-	-	(5,318,706,060)	(5,318,706,060)
As At 30 June 2022	**8,864,510,100**	**2,035,465,000**	**105,878,200**	**830,615,740**	**81,170,886,049**	**93,007,355,089**

Dividend (Cash @ 100%)	8,864,510,100

The annexed notes form an integral part of these financial statements.

Samuel S Chowdhury	**Tapan Chowdhury**	**Khandaker Habibuzzaman**
Chairman	Managing Director	Company Secretary

SQUARE PHARMACEUTICALS PLC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

Particulars	Notes	Amount in Taka	
		2022-2023	2021-2022
Cash Flows from Operating Activities:			
Receipts from Customers		68,238,621,872	66,008,198,046
Receipts from Others		215,159,055	126,812,094
Payments to Suppliers		(24,080,940,983)	(21,490,566,384)
Payments for Manufacturing and Operating Expenses		(20,832,205,578)	(18,014,135,969)
Payment of Value Added Tax		(9,185,006,544)	(8,809,018,591)
Cash Generated from Operations		**14,355,627,823**	**17,821,289,195**
Interest Paid		(21,966)	(29,491)
Payment of Income Tax		(5,124,279,199)	(4,479,719,825)
Payment to WPPF & WF	17	(1,051,227,994)	(937,796,627)
Others		(49,525,453)	(58,108,805)
Net Cash Generated from Operating Activities		**8,130,573,211**	**12,345,634,446**
Cash Flows from Investing Activities:			
Acquisition of Property, Plant and Equipment		(2,341,111,651)	(3,001,781,789)
Proceeds from Sale of Property, Plant and Equipment		78,331,531	130,700,166
Investment in Subsidiaries and Associates		(52,530,000)	(900,000,000)
Long Term Investment - Others		(597,315,847)	(1,416,175,769)
Investment in Marketable Securities		(260,698,045)	213,339,812
Interest Received		3,874,913,030	2,890,660,506
Dividend Received	26	552,966,126	395,011,790
Net Cash from/(used) in Investing Activities		**1,254,555,124**	**(1,688,245,284)**
Cash Flows from Financing Activities:			
Payment of Dividend		(8,802,918,480)	(5,301,732,420)
Transfer of Unclaimed Dividend to Capital Market Stabilisation Fund		(32,229,859)	(262,503,350)
Net Cash Used in Financing Activities		**(8,835,148,339)**	**(5,564,235,770)**
Net Increase/(Decrease) in Cash and Cash Equivalents		**549,979,996**	**5,093,153,392**
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents		624,810,186	456,279,255
Cash and Cash Equivalents at 01 July		48,904,402,066	43,354,969,418
Cash and Cash Equivalents at 30 June		**50,079,192,249**	**48,904,402,066**
Net Operating Cash Flow (NOCF) per Share	31	**9.17**	**13.93**

The annexed notes form an integral part of these financial statements.

Samuel S Chowdhury	Tapan Chowdhury	Khandaker Habibuzzaman
Chairman	Managing Director	Company Secretary

Real Financial Statements of Service Rendering Firms (Grameen Phone PLC):

Grameenphone Ltd.
Statement of financial position

As at 31 December 2023

	Notes	2023 BDT (000)	2022 BDT (000)
Assets			
Non-current assets			
Property, plant and equipment	4	67,019,995	63,849,119
Intangible assets	5	4,396,001	4,023,092
Right-of-use assets	6	76,098,723	80,501,010
Contract cost	8	7,141,402	5,148,908
Other non-current assets	9	20,471,568	20,471,567
Total non-current assets		**175,115,719**	**172,993,696**
Current assets			
Inventories	10	591,449	1,058,393
Trade receivables and others	11	7,994,702	7,678,405
Cash and cash equivalents	12	16,718,338	3,326,922
Total current assets		**25,304,489**	**12,093,720**
Total assets		**200,420,208**	**185,087,416**
Equity and liabilities			
Shareholders' equity			
Share capital	14	13,503,000	13,503,000
Share premium	15	7,840,226	7,840,226
Capital reserve	16	14,446	14,446
Retained earnings		45,331,868	24,853,086
Total equity		**66,689,540**	**46,210,758**
Non-current liabilities			
Lease liabilities	6	40,212,825	41,046,666
Deferred tax liabilities	17	478,269	3,060,593
Employee benefits	18	384,470	1,340,324
Other non-current liabilities	19	456,235	496,323
Total non-current liabilities		**41,532,899**	**45,943,906**
Current liabilities			
Trade payables and others	20	29,619,417	27,275,330
Provisions	21	23,946,716	23,612,398
Lease liabilities	6	10,006,247	10,852,496
Loans and borrowings	22	3,119,589	5,037,394
Current tax liabilities	23	19,459,679	23,778,920
Other current liabilities	24	5,968,502	2,316,342
Unclaimed dividend	25	77,609	58,873
Total current liabilities		**92,197,769**	**92,932,752**
Total equity and liabilities		**200,420,208**	**185,087,416**

The annexed notes 1 to 46 form an integral part of these financial statements.

Director

Director

Chief Executive Officer

Company Secretary

ACNABIN, Chartered Accountants
FRC Registration # CAF-001-012

Abu Sayed Mohammed Nayeem, FC
Partner

Grameenphone Ltd.
Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

	Notes	2023 BDT (000)	2022 BDT (000)
Revenue	26	**158,715,818**	**150,403,468**
Cost of material and traffic charges	27	(8,961,341)	(10,088,492)
Salaries and personnel cost	28	(8,484,009)	(8,226,728)
Operation and maintenance	29	(6,272,365)	(4,252,580)
Sales, marketing and commissions	30	(15,428,172)	(15,276,833)
Revenue sharing and spectrum charges	31	(12,009,842)	(12,583,383)
Other operating (expenses)/income	32	(8,769,884)	(1,486,582)
Depreciation and amortisation	33	(32,321,703)	(27,896,584)
		(94,286,946)	(86,815,282)
Operating profit		**64,428,872**	**63,588,187**
Finance (expense)/income	34	(9,383,833)	(10,177,407)
Foreign exchange (loss)/gain		(721,266)	(1,430,677)
		(10,105,099)	(11,608,084)
Profit before tax		**54,323,873**	**51,980,103**
Income tax expense	35	(21,249,000)	(21,898,505)
Profit after tax		**33,074,873**	**30,081,598**
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit plan	16	386,265	(3,164)
Related taxes		(154,506)	1,266
		231,759	(1,898)
Total comprehensive income for the year		**33,306,632**	**30,079,700**
Earnings per share			
Basic earnings per share (par value BDT 10 each in BDT)	36	24.49	22.28

The annexed notes 1 to 46 form an integral part of these financial statements.

Director

Director

Chief Executive Officer

Company Secretary

ACNABIN, Chartered Accountants
FRC Registration # CAF-001-012

Abu Sayed Mohammad Nayeem, FCA
Partner
ICAB Enrolment # 0353
DVC: 2402050353AS756660

Dated: Dhaka, 05 February 2024

Grameenphone Ltd.
Statement of cash flows

For the year ended 31 December 2023

	2023 BDT (000)	2022 BDT (000)
Cash flows from operating activities		
Cash receipts from customers	159,409,773	148,708,931
Payroll and other payments to employees	(9,152,891)	(10,266,672)
Payments to suppliers, contractors and others	(57,035,890)	(47,937,814)
Interest received	352,911	156,852
Interest paid	(4,668,117)	(2,762,520)
Income tax paid	(28,304,971)	(24,086,083)
	(98,808,958)	(84,896,237)
Net cash generated from operating activities	**60,600,815**	**63,812,694**
Cash flows from investing activities		
Payment for acquisition of property, plant and equipment, Right-of-use and intangible assets	(23,860,594)	(21,786,189)
Proceeds from sale of property, plant and equipment	263,706	214,929
Net cash used in investing activities	**(23,596,888)**	**(21,571,260)**
Cash flows from financing activities		
Payment of short-term bank loan	(2,321,927)	(462,606)
Payment of dividend	(9,093,155)	(33,584,032)
Transfer of unclaimed dividend to Capital Market Stabilisation Fund	(13,787)	(15,478)
Payment of lease liabilities	(12,376,119)	(7,920,920)
Net cash used in financing activities	**(23,804,988)**	**(41,983,036)**
Net change in cash and cash equivalents	**13,198,939**	**258,398**
Cash and cash equivalents as at 01 January	**3,325,922**	**2,748,661**
Effect of exchange rate fluctuations on cash held	**193,477**	**318,863**
Cash and cash equivalents as at 31 December (Note 12)	**16,718,338**	**3,325,922**

Practical Problems

Practical Problem # 01

The balance of Surjaban Traders for 2024 along with additional information as of 30 June was as follows:

[Dec- 2013, slightly modified

Accounts Titles	Debit	Credit
Accounts Receivable	290000	
Purchases	810000	
Allowance for Doubtful Debts		5000
Inventories (July 1, 2023)	60000	
Furniture	100000	
Accumulated Depreciation-Furniture		40000
Buildings	1400000	
Accumulated Depreciation-Buildings		300000
Goodwill	50000	
Bad Debts	60000	
Salaries	220000	
Interest Expenses	10000	
Rent Expenses	60000	
Freight In	70000	
Dividend Paid	150000	
Sales		2000000
Interest Income		10000
Bonds Payable		255000
Capital (6000 Shares of Tk. 100 each)		600000
Retained Earnings (July 1, 2023)		70000
	3280000	**3280000**

Adjustments on June 30, 2024 are as follows:-

(i) Inventory on June 30, 2024 is Tk. 1,00,000.

(ii) Depreciation on furniture @ 10%, Buildings @ 5%.

(iii) The allowances for doubtful accounts is to be increased to a balance of Tk. 8,000.

(iv) Accrued salaries Tk. 20,000, accrued interest on bonds Tk. 10,000.

(v). Income taxes are estimated to be 50% of the income before tax.

(vi) Half of rent expenses is to be considered prepaid.

Required:

Prepare a multiple-step income statement, statement of owners' equity and balance sheet.

Solution:

Surjaban Traders

Income Statement (multiple step)

For the year ended 30 June, 2024

Details		**Tk**	**TK**
Sales			2000000
Less: Cost Of Goods Sold:			
Opening/ Beginning Inventory/ Stock		60000	
Purchase	810000		
Freight In	70000		
		880000	
Cost of Goods Available For Sale		940000	
Less: Ending/ Closing Inventory		100000	
			840000
Cost of Goods Sold			1160000
Gross Margin/Gross Profit			
Less: Operating Expenses			
Salaries Expenses	220000		
(+) Accrued	20000		
		240000	
Rent Expenses	60000		
(-) Prepaid	30000		
		30000	
Bad Debts	60000		
(+) New Allowances For	8000		
	68000		
(-) Old Allowances For	5000		
Bad Debts Expenses		63000	
Depreciation of Furniture	10000		
Depreciation of Building	70000		

	80000	
Total Operating Expenses		413000
Operating Income		747000
Add: Non-operating Income		
Interest Income		10000
		757000
Less: Non-operating Expenses:		
Interest Expense 10000		
Accrued 10000		
		20000
Net Income Before Tax		737000
Less: Income Tax (50% of 7,37,000) Payable		368500
Net Income after Tax		**368500**

Surjaban Traders

Statement of Retained Earnings

For the year ended 30 June, 2024

Details		**Tk**
Opening Balance	70000	
Add: Net Income after Tax	368500	
		438500
Less : Dividend Paid		150000
Balance (Retained Earnings) transfer to Balance		**288500**

Surjaban Traders'

Balance Sheet (Classified)

30 June, 2024

Details		Debit	Credit
Assets			
Current Assets :			
Accounts Receivable	290000		
Less: New Allowances for Bad Debts	8000		
		282000	
Closing Inventory		100000	
Prepaid Rent		30000	
Fixed Assets :			
Building	1400000		
Less Accumulated Depreciation	370000		
		1030000	
Furniture	100000		
Less : Accumulated Depreciation	50000		
		50000	
Intangible Assets :			
Goodwill		50000	
Liabilities and Equity			
Current Liabilites :			
Tax Payable			368500
Salaries Payable			20000
Interest Payable			10000
Long Term Debt :			
Bond Payable			255000
Capital/ Common Stock			600000
Retained Earnings (From Retained Earnings Statement)			288500
		1542000	**1542000**

Adjusting Entry

No.	Description	L.F	Dr.	Cr.
1.	Closing Inventory		100000	
	Cost of goods sold			100000

2-a	Depreciation-Furniture		10000	
	Accumulated Depreciation-Furniture			10000
2-b	Depreciation-Building		70000	
	Accumulated Depreciation-Build			70000
3	Bad Debt Expense		8000	
	Allowances for Bad Debt			8000
4-a	Salaries Expense		20000	
	Salaries Payable			20000
4-b	Interest Expense		10000	
	Interest Payable			10000
5	Income Tax		368500	
	Income Tax Payable			368500
6	Prepaid Rent Expense		30000	
	Rent Expense			30000

Closing Entry

No.	Description	L.F	Dr.	Cr.
1	Sales Revenue		2000000	
	Interest Income		10000	
	Income Summary			2010000
2	Income Summary		1273000	
	Cost of Goods Sold			840000
	Salaries Expenses			2400000
	Rent Expense			30000
	Depreciation Expenses-Furniture			10000
	Depreciation Expenses-Buildings			70000
	Interest Expense			20000
	Bad Debt Expenses			63000

Practical Problem # 02

Prepare (a) Income Statement, (b) Statement Owner's Equity and (c) Balance Sheet of Sumi Enterprise based on its the trial balance as on December 31, 202x and additional information given below.

Sumi Enterprise

Trial Balance

December 31, 202x

Particulars	**Debit**	**Credit**
Capital		20930
Drawing	10200	
Fees Earned	12415	
Rent Expense	3600	
Utilities Expense	2715	
Misc. Expense	435	
Cash	2425	
Account Receivable	5000	
Supplies	1870	
Prepaid Insurance	620	
Office Equipment	32650	
Accumulated Depreciation		9700
Accounts Payable		925
Unearned Fees		1250
Total	**71930**	**71930**

Additional Information.

(1) Accrued fees earned but not recorded at 31, December, 202x, was Tk. 1,000.

(2) Unearned fees on 31, December 202x were Tk. 750.

(3) Depreciation of equipment during the year was Tk. 1,950.

(4) Wages accrued but not paid at 31, December 202x was Tk. 140.

(5) Supplies on hand at 31 December, 202x were Tk. 480.

(6) Insurance premium expired during the year were Tk. 315.

Solution: (a)

Sumi Enterprise

Income Statement

For the year ended December 31, 202x

		Taka	Taka
Fees Earned		39125	
Add: Accrued Fees		1000	
Add: Unearned Fees Earned		500	
			40625
Operating and commercial expenses:			
Supplies	1870		
Less: Unused	480		
		1390	
Insurance Expense		315	
Depreciation On Office Equipment		1950	
Wages	12415		
Add: Due	140		
		12555	
Rent Expense		3600	
Utilities Expense		2715	
Miscellaneous Expense		435	
			22960
Net Profit-Transferred to statement of equity			**17665**

(b)

Sumi Enterprise
Balance Sheet
31 December, 202x

		Debit	Credit
Assets			
Fixed Assets:			
Office Equipment	32650		
Less Accumulated Depreciation (9700+1950)	11650		
		21000	
Current Assets :			
Cash		2425	
Accounts Receivable		5000	
Supplies		480	
Prepaid Insurance		305	
Accrued Fees		1000	
Long-Term Liabilities and Owner's Equity			
Current Liabilities:			
Accounts Payable			925
Unearned Fees			750
Accrued Wages			140
Owner's Equity			
Owner's Equity	20930		
Less Drawing	10200		
	10730		
Add: Net Income	17665		28395
		30210	**30210**

(c) **Sumi Enterprise**
Statement of Owner's Equity
For the year ended December 31, 202x

	Taka
Owner's Equity	20930
Less: Drawing	10200
	10730
Add: Net Income	17665
	28395

Practical Problem # 03

Prepare an Income statement, a Owner's Equity Statement and Balance Sheet of Babul Trading for the year ended December 31, 202x on the basis of the adjusted balances as shown below:

Babul Trading

Adjusted Trail Balance

December 31, 202x

Particular	Taka
Babuls Capital 1-1-202x	2165000
Drawings	150000
Cash and Bank	163100
Stock & Stores	189000
Accounts Receivable	177500
Prepaid Insurance	60000
Accrued Payroll	75000
Accounts Payable	200000
Plant & Machinery	1750000
Accumulated Depreciation	17500
Sales	412500
Cost of goods sold	256250
Salary	16650
Depreciation	17500
Misc. Expenses	2500

Solution:

Babul Trading

Income Statement

For the year ended December 31, 202x

Particulars	Taka	Taka
Sales	412500	
Less: Cost of goods sold	256250	
Gross Profit		156250
Operating expenses:		
Salary	16650	
Rent	20000	

Depreciation	17500	
Misc. Expenses	2500	
Total Expenses		56650
Net Income		**99600**

Babul Trading

Statement of Owner's Equity

December 31, 202x

Particulars	Taka
Capital as on January 1, 202x	2165000
Add: Net Income	99600
	2264600
Less: Drawings	150000
Equity as on December 31, 202x	**2114600**

Babul Trading

Balance Sheet

December 31, 202x

Particulars	Taka	Taka
Assets		
Current Assets :		
Cash and Bank	163100	
Accounts Receivable	177500	
Stock and Stores	189000	
Prepaid Insurance	60000	
Total Current Assets		589600
Fixed Assets :		
Plant and Machinery	1750000	
Less : Accumulated Depreciation	17500	
Total fixed Assets		1732500
Total Assets		**2322100**
Liabilities		
Current Liabilities:		

Accounts Payable	200000	
Accrued Payroll	7500	
Total Current Liabilities		207500
Equity		2114600
Total Liabilities and Equity		**2322100**

Practical Problem # 04

The Trial Balance of Mozammel and Co. is as follows:

Mozammel & Co.

Trial Balance

December 31, 2024

	Debit			**Credit**
Furniture	6500	Equity		45000
Accounts Receivable	26000	Purchases Returns		1300
Cash in hand	900	Sales		180900
Cash at Bank	14000	Rent Income		1000
Building	20000	Commission Income		200
Drawing	3600	Allowance for Bad Debts		150
Purchase	155300	Allowance for Depreciation		
Sales Return	1900	Furniture Tk.	200	
Merchandise Inventory	12000	Building Tk.	500	700
Carriage In	1000	Account Payable		12450
Office Salaries Expenses	6000	Notes Payable		3000
		Loan on Mortgage		
Rent & Taxes Expense	1200	(Payable on 30/06/2025)		10000
Sales Salaries Expense	2200			
Carriage on Sales	1400			
Advertising Expense	700			
Insurance Expense	1800			
Sundry office Expense	200			
	254700			**254700**

Adjusting Data:

(1) Interest on Mortgage loan accrued Tk. 500.

(2) Depreciation be provided. Furniture Tk. 200, Building Tk. 500. (3) Commission accrued but not received Tk. 100.

(4) Merchandise Inventory December 31, 2024 Tk. 18,000.

(5) Office salaries accrued but not paid Tk. 600.

(6) Rent Received but not earned Tk. 200.

(7) Goods taken by the proprietor for private use Tk. 100.

(8) Increase allowance for bad debts to Tk. 1,190 on Accounts

(9) Carry forward for prepaid Insurance Tk. 450.

Prepare an Income Statement and a Balance Sheet.

Solution:

Mozammel & Co.

Income Statement

For the year ended December 31, 2024

Particulars		Taka	Taka
Sales		180900	
Less: Returns		1900	
Nets Sales			179000
Cost Of Goods Sold:			
Opening Merchandise Inventory.		12000	
Purchase (Adjusted i.e.-1,55,300-18,000-100)	137200		
Less: Returns	1300		
Nets Purchase		135900	
Carriage In		1000	
Cost of Goods Sold			148900
Gross Profit			30100
Operating Expenses:			
Office Salaries Expense		6600	
Rent and Taxes Expense		1200	
Sales Salaries Expense		2200	
Carriage On Sales		1400	
Advertising Expense		700	
Insurance Expense		1350	
Sundry Office Expense		200	

Interest Expense	500	
Depreciation Expense-Furniture	200	
Depreciation Expense -Building	500	
Bad Debts Expense	1040	
		15890
Net Operating Income		14210
Non-Operating Income:		
Rent Income	800	
Commission Income	300	
		1100
Net Income		**15310**

Mozammel & Co.

Owner's Equity Statement

For the year ended December 31, 2024

Particulars	Taka	Taka
Beginning Balance	45000	
Add: Net Income	15310	
	60310	
Less: Drawings	3700	
Ending Balance		**56610**

Mozammel & Co.

Balance Sheet

December 31, 2024

Particulars		Debit	Credit
Assets			
Current Assets :			
Cash		900	
Accounts Receivable	26000		
Less: Allowance For Bad Debts	1190	24810	
Cash At Bank		14000	
Inventory		18000	
Prepaid Insurance		450	

Accrued Commission		100	
Total Current Assets		58260	
Fixed Assets :			
Building	20000		
Less Allowance For Depreciation	1000	19000	
Furniture	6500		
Less: Allowance For Depreciation	400	6100	
Total Fixed Assets		25100	
Liabilities And Owner's Equity			
Current Liabilities:			
Accounts Payable			12450
Notes Payable			3000
Loan on Mortgage (Payable On 30/6/2025)			10000
Interest Payable			500
Office Salaries Payable			600
Unearned Rent			200
Total Current Liabilities			26750
Owner's Equity:			56610
Total		**83360**	**83360**

Practical Problem # 05

Following balances are obtained from the book of Saidur Enterprise for the year ended December 31,, 2024.

Saidur Enterprise

Trial Balance

December 31,, 2024

Accounts Titles	**Debit**	**Credit**
Cash	15000	
Accounts Receivable & Payable	30000	20000
Land	40000	
Plant And Machinery	50000	
Accumulated Depreciation-Plant		5000
Furniture	15000	
Accumulated Dep.-Furniture		1500
Loose Tools	2000	

Accumulated Dep.-Loose Tools		500
Transportation In	1000	
Insurance Expenses	500	
Interest Expenses	400	
Office Expenses	700	
Salaries Expenses	2000	
Merchandise Purchase and Sales	170000	220000
Return	4000	3000
Sales & Purchase Discount	2000	4000
Supplies Expenses	2000	
Advertising Expenses	4000	
Rent Income		1000
Interest Income		1100
Allowance for Doubtful Accounts		500
Capital- Saidur		102000
Drawings- Saidur	20000	
	358600	**358600**

Adjustments on December 31,, 2024 are required as follows.

(1) The inventory on hand Tk. 30000.

(2) Accrued selling expenses Tk. 200.

(3) Supplies in hand Tk. 200.

(4) Accrued rental incurred Tk. 500.

(5) The allowance for doubtful accounts is to be incurred to a balance of Tk. 1500.

(6) Interest received in advance Tk. 500.

(7) Charge depreciation 5% on plant and machinery & furniture & loose tools.

Required:

(a) Income statement &

(b) Balance sheet.

Solution:

Saidur Enterprise

Income Statement

For the year December 31, 2024

Particular		Taka	Taka
Sales		220000	
Less: Sales Returns		4000	
		216000	
Less: Sales Discount		2000	
			214000
Cost Of Goods Sold:			
Purchase (Adjusted i.e.-170000-30000)	140000		
Less: Purchase Returns	3000		
	137000		
Less: Purchase Discount	4000		
		133000	
Transportation In		1000	
			134000
Gross Profit			80000
Operating Expenses :			
Selling Expenses			
Selling Expense	200		
Bad Debt Expense	1000		
		1200	
Administrative Expenses :			
Insurance Expense	500		
Office Expense	700		
Salaries Expense	2000		
Supplies Expense	1800		

Advertising Expense	4000		
Depreciation Expense:			
Plant	2500		
Furniture	750		
Tools	100		
		12350	
			13550
Net Operating Income			66450
Income from other source:			
Rental Income		1500	
Interest Income		600	
			2100
			68550
Other Expenses:			
Interest Expenses			400
Net Income			**68150**

Saidur Enterprise

Owner's Equity Statement

For December 31, 2024

Particular	**Taka**
Capital (Jan 01, 2024)	102000
Add: Net Income	68150
	170150
Less: Drawings	20000
Capital (Dec 31, 2024)	150150

Saidur Enterprise

Balance Sheet

December 31, 2024

Assets		TK.	TK.
Current Assets :			
Accounts Receivable	30000		
Less: Allowance B/D	1500	28500	
Cash		15000	
Inventory		30000	
Supplies On Hand		200	
Accrued Rental Income		500	
Fixed Assets :			
Land		40000	
Plants Of Machinery	50000		
Less: Acc. Depr.	7500	42500	
Furniture	15000		
Less Acc. Depr.	2250	12750	
Loose Tools	2000		
Less: Acc. Depr.	600	1400	
Liabilities and Owner's Equity			
Current Liabilities :			
Accounts Payable			20000
Selling Expense Payable			200
Advance Interest Income			500
Owner's Equity :			
Capital			150150
		170850	**170850**

Practical Problem # 06

Jamuna PLC

Trial Balance

December 31, 2024

Accounts Titles	**Debit**	**Credit**
Sales		390000
Sales Returns and Allowance	12000	
Purchases	220000	
Transportation In	10000	
Selling Expenses	18000	
Administrative Expenses	25000	
Interest Revenue		11000
Interest Expense	5000	
Furniture and Fixtures	95000	
Accumulated Depreciation- Furniture and Fixtures		15000
Cash	120000	
Accounts Receivable	75000	
Notes Receivable	35000	
Allowance for Doubtful Accounts		2000
Inventory (1-1-2024)	65000	
Unexpired Insurance	15000	
Supplies on hand	7000	
Accounts Payable		48000
Notes Payable		16000
Common Stock		170000
Retained Earnings		50000
	702000	**702000**

Adjustments:

(1) Depreciation on furniture and fixtures, 5% per annum.

(2) Supplies used Tk. 5000.

(3) Office salaries accrued Tk. 3000.

(4) Interest payable on notes payable Tk. 2000.

(5) Interest unearned on notes receivable Tk. 2500.

(6) Estimated bad debts, 1% of net sales.

(7) Insurance Expired Tk. 10000.

(8) Income tax payable at 20%.

Required:

(a) An Income Statement.

(B) A Statement of Retained Earnings.

(C) A Classified Balance Sheet.

Solution:

Jamuna PLC
Income Statement
For the year December 31, 2024

	Tk	Tk
Revenue:		
Sales	390000	
Less: Returns	12000	
		378000
Sales Cost Of Goods Sold (65,000+ 2,20,000)	285000	
Transportation	10000	
Selling Expense	18000	
Administrative Expense	25000	
Salaries Expense	3000	
Bad Debts Expense	2780	
Depreciation Expense-Furniture & Fixture	4750	
Insurance Expense	10000	
Supplies Expense	5000	
Total Expense		363530
Net Operating Income		14470
Other Revenues and Gains:		
Interest Revenue		8500
		22970
Other Expense and Losses:		
Interest Expense		7000
Total Net Income Before Income Tax		15970
Income Tax (20%)		3194
Net Income		**12776**

Jamuna PLC
Retained Earnings
For the year ended December 31, 2024

	TK
Retained Earnings January 1, 2024	50000
Net Income	12776
Retained Earnings December 31, 2024	**62776**

Jamuna PLC
Balance Sheet
December 31,, 2024

		Debit	Credit
Assets			
Current Assets :			
Cash		120000	
Accounts Receivable	75000		
Less: Allowance for Doubtful Accounts	4780		
		70220	
Note Receivable		35000	
Unexpired Insurance		5000	
Supplies on hand		2000	
Property, Plant And Equipment:			
Furniture	95000		
Less: Accumulated Depreciation	19750		
		75250	
Liabilities And Stockholders' Equity:			
Current Liabilities:			
Accounts Payable			48000
Notes Payable			16000
Salaries Payable			3000
Interest Payable			2000
Unearned Interest			2500
Income Tax Payable			3194
Stockholder's Equity:			
Common Stock			170000
Retained Earnings			62776
		307470	**307470**

Practical Problem # 07

The trial balance of Shahina PLC as on December 31, 2024 was as follows.

Shahina PLC

Trial Balance

December 31,, 2024

Accounts Titles	**Debit**	**Credit**
Sales Salaries And Commission	80000	
Advertising Expenses	30000	
Legal Expenses	10000	
Insurance	20000	
Travelling Expenses	15000	
Sales Delivery Equipment	150000	
Office Equipment	120000	
Accumulated Depreciation -Delivery Equipment		30000
Accumulated Depreciation-Office Equipment		20000
Allowance For Doubtful Accounts		8000
Cash in hand and at Bank	50000	
Bad Debts Expenses	10000	
Accounts Receivable	220000	
Notes Receivable	40000	
Accounts Payable		90000
Notes Payable		50000
Income Tax Paid	80000	
Dividend Paid	80000	
Income Tax Reserve		40000
Inventory (1-1-2024)	180000	
Interest Revenue		20000
Utilities	10000	
Telephone And Postage	7000	

Dividend Revenue		15000
Sales		1000000
Purchase	440000	
Sales Discount	12000	
Sales Returns And Allowance	8000	
Purchase Returns		9000
Transportation In	30000	
Office Salaries	60000	
Share Capital 40,000 Share of Tk 10 each		400000
Retained Earnings On 1-1-2024		120000
10% Bonds		200000
Investment	100000	
Investment in Apple PLC Share.	250000	
	2002000	**2002000**

Additional Information:

(1) Proposed dividend 20%.

(2) Allowance for bed debt to be made @ 5%.

(3) Unexpired insurance Tk. 5000.

(4) Accrued office salaries Tk. 6000.

(5) Income tax rate 30%.

(6) Inventory at the end of the year Tk. 160000.

(7) Depreciation on equipment @ 5% p.a.

Required:

(a) Income statement.

(b) Retained earnings statement and

(c) Balance sheet.

Solution:

Shahina PLC

Income Statement

For the year ended December 31, 2024

		TK	TK
Sales		1000000	
Less: Sales Discount	12000		
Sales Returns And Allowance	8000	20000	
Net Sales			980000
Cost Of Goods Sold (Note-1)			481000
Gross Profit			499000
Operating Expenses :			
Selling Expenses :			
Sales Salaries And Commission	80000		
Advertising	30000		
Travelling Expenses	15000		
Depreciation Sales Delivery Equipment	7500		
Bad Debts And Allowance (Note-2)	13000		
		145500	
Administrative Expenses :			
Legal Expenses	10000		
Depreciation On Office Equipment	6000		
Utilities	10000		
Telephone And Postage	7000		
Office Salaries (60,000 + 6,000)	66000		
Insurance (20,000 - 5,000)	15000		
		114000	
Total Operating Expenses			259500
Operating Profit			239500
Other Revenue And Gains :			
Interest Revenue		20000	
Dividend Revenue		15000	
			35000
			274500
Non-Operating Expenses:			
Interest Expenses			20000
Net Profit Before Tax			254500
Less: Income Tax Provision @ 30%			76350
Net Profit After Tax			**178150**

Shahina PLC

Retained Earnings Statement

For the year ended December 31, 2024.

		TK.
Retained Earnings (1-1-2024)		120000
Net Profit		178150
		298150
Dividend Paid	80000	
Proposed Dividend	80000	
		160000
Retained Earnings On December 31, 2024.		**138150**

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Shahina PLC

Balance Sheet

For the year ended December 31,, 2024.

Assets	Amount (Tk.)
Current Assets:	
Cash in Hand and at Bank	50,000
Accounts Receivable (220,000 - 11,000)	209,000
Notes Receivable	40,000
Inventory (Ending)	160,000
Prepaid Insurance (Unexpired)	5,000
Total Current Assets	**464,000**
Non-Current Assets:	
Sales Delivery Equipment	150,000
Less: Accumulated Depreciation	(37,500)
Net Delivery Equipment	112,500
Office Equipment	120,000
Less: Accumulated Depreciation	(26,000)
Net Office Equipment	94,000
Investment	100,000
Investment in A PLC Share	250,000
Total Non-Current Assets	**556,500**
Total Assets	**1,020,500**

Particulars	Amount (Tk.)
Current Liabilities:	
Accounts Payable	90,000
Notes Payable	50,000
Accrued Office Salaries	6,000
Allowance for Doubtful Accounts	11,000
Income Tax Reserve	40,000
Proposed Dividend	80,000
Total Current Liabilities	**277,000**
Non-Current Liabilities:	
10% Bonds Payable	200,000
Total Non-Current Liabilities	**200,000**
Shareholders' Equity:	
Share Capital (40,000 shares @ Tk. 10 each)	400,000
Retained Earnings	138,150
Total Shareholders' Equity	**538,150**
Total Liabilities and Equity	**1,020,500**

Notes:

1. Cost of goods sold:

		Tk.
Merchandise Inventory 1-1-2024		180000
Purchases	440000	
Transportation In	30000	
Cost of Purchases	470000	
Less: Purchases Returns	9000	
Net Purchase		461000
Cost of goods available for sale		641000
Less: Inventory December 31, 2024		160000
Cost of goods sold		**481000**

2. Bad Debts and Allowance

	TK
Bad Debts	10000
Allowance for Doubtful Accounts	11000
	21000
Less: Existing Allowance	8000
	13000

4. Accounts Receivable

Accounts Receivable	220000
Less: Allowance For Doubtful Accounts	11000
	209000

3. Fixed Assets

	Cost	Dep. 1st Jan	Dep. For the year	Total Dep.	Written down value
Sales Delivery Equipment	150000	30000	7500	37500	112500
Office Equipment	120000	20000	6000	26000	94000
					206500

Practical Problem # 08

The trial balance of Ichamoti PLCfor 2024 along with additional information as of December 31, was as follows:

Ichamoti PLC

Trial Balance

December 31,, 2024

Accounts Titles	Debit	Credit
Delivery Expense	60000	
Sales		950000
Purchase	460000	
Sales Returns	10000	
Purchases Returns		6000
Delivery Trucks	150000	
Office Building	200000	

Office Equipment	120000	
Store Equipment	120000	
Freight In	50000	
Dividend Paid	100000	
Income Tax Paid	80000	
Income Tax Provision		100000
Inventory 1-1-2024	180000	
General Expenses	60000	
Sundry Selling Expenses	40000	
Dividend Revenue		30000
Accounts Receivable	120000	
Notes Payable		50000
Accounts Payable		57000
Notes Receivable	60000	
Accumulated Depreciation-Delivery Trucks		30000
Accumulated Depreciation-Office Building		20000
Accumulated Depreciation-Office Equipment		20000
Accumulated Depreciation-Store Equipment		30000
Doubtful Accounts Expenses	15000	
Sales Salaries	40000	
Office Salaries	60000	
Stores Supplies Expenses	10000	
Interest Revenue		20000
Advertising	40000	
Share Capital		600000
8% Bonds		200000
Interest Expenses	8000	
10% Investment	100000	
Retained Earnings on 1-1-2024		230000
Rent	24000	
Insurance	16000	
Cash in hand and at Bank	40000	
General Reserve		320000
Investment in shares	500000	
	2663000	**2663000**

Additional Information:

(1) Proposed dividend @ 10%.

(2) Unexpired rent Tk. 4000.

(3) Accrued office salaries Tk. 5000.

(4) Depreciation on delivery trucks @ 10% and on office building @ 25% and on office equipment and stores equipment @ 15% p.a.

(5) Income tax rate @ 30%.

(6) Transfer Tk. 20000 to general reserve.

(7) Create allowance for doubtful accounts @ 5%.

(8) Value of inventory at the end of the year Tk. 250000.

Practical Problem # 09

Prepare Income statement, Retained earnings statement, and Balance sheet.

Solution:

Ichamoti PLC

Income Statement

For the year ended December 31, 2024

		TK	**TK**
Sales		950000	
Less: Sales returns		10000	
Net sales			940000
Cost of goods sold (1)			434000
Gross Profit			506000
Operating Expenses:			
Selling Expenses:			
Delivery Expenses	60000		
Sundry Selling Expenses	40000		
Sales Salaries	40000		
Stores Supplies Trucks	10000		
Depreciation on Delivery Truck's	15000		
Depreciation on Store Equipment	18000		
Advertising	40000		
Bad Debts And Allowance	21000		

		244000	
Administrative Expenses:			
General Expense	60000		
Office Salaries (60,000 + 5,000)	65000		
Rent (24,000 - 4,000)	20000		
Insurance	16000		
Depreciation on Office Building	4000		
Depreciation on Office Equipment	18000		
		183000	
Total Operating Expenses			427000
Operating Profit			79000
Non-Operating Income :			
Dividend Income			30000
Interest Revenue			20000
			129000
Non-Operating Expenses :			
Interest Expenses			16000
Net Profit Before Tax			113000
Less: Income Tax Provision @ 30%			33900
Net Profit After Tax			**79100**

Ichamoti PLC

Retained Earnings Statement

For the year ended December 31, 2024

	TK.	**TK.**
Retained Earnings on 1-1-2024	230000	
Excess of Existing Income Tax Provision. (1,00,000 - 80,000)	20000	
Net Profit for the year.	79100	
		329100
Less: Dividend Paid	100000	
Transfer to General Reserve	20000	
Proposed Dividend	60000	
		180000
Retained Earnings on December 31, 2024		**149100**

Ichamoti PLC

Balance Sheet

December 31, 2024

Particular	**Dr.**	**Cr.**
Assets :	435000	
Fixed Assets - (Note - 3)	600000	
Investment (Note -4)		
Current Assets:		
Inventory	250000	
Accounts Receivable Less Allowance	114000	
Notes Receivable	60000	
Cash in hand and at Bank	40000	
Unexpired Rent	4000	
Liabilities & Owner's Equity		
Liabilities		
Share Capital		600000
Reserve and Supplies :		
General Reserve (3,20,000 + 20,000)		
Retained Earnings		
		489100
Loan:		
8% Bonds		200000
Current Liabilities & Provision:		
Notes Payable		50000
Accounts Payable		57000
Outstanding Expense		8000
Outstanding Office Salaries		5000
Proposed Dividend		60000
Provision For Income Tax		33900
	1503000	**1503000**

Notes

1. Cost of goods sold :

			TK
Inventory 1-1-2024			180000
Purchases		460000	
Add: Freight in		50000	
		510000	
Less: Purchases returns		6000	
	Net purchase		504000
	Cost of goods available for sale		684000
Less Ending inventory			250000
	Cost of goods sold		**434000**

2. Bad Debts and Allowance :

	TK
Doubtful Accounts Expenses	15000
Add: Allowance for Doubtful Accounts	6000
	21000

3. Fixed Assets

	Cost	**Dep. 1st Jan**	**Dep. For the year**	**Total Dep.**	**Written down value**
Delivery Trucks	150000	30000	15000	45000	105000
Office Building	200000	20000	4000	24000	176000
Office Equipment	120000	20000	18000	38000	82000
Store Equipment	120000	30000	18000	48000	72000
					435000

4. Investment:

Investment in shares	500000
20% investment	100000
	600000

Practical Problem # 10

The following is the Trial Balance of Ruposhi Bangla PLC on December, 2024.

Accounts Titles	Debit	Credit
Authorized Share Capital (5,000 Shares of Tk. 10 each)		
Issued Share Capital (4,000 Shares of Tk. 10 each, Tk. 7.50 called)		30000
Call Account (200 shares)	500	
Stock on 1st Jan. 2024	12720	
Purchase and Sales	29120	46310
Debtors and Creditors	14200	2030
Sundry Expenses	1820	
Wages and Salaries	4100	
Investment (Market Price Tk. 8,600)	9000	
General Reserve		5000
Dividend Equalization Fund		5000
Plant	8000	
Goods out on Consignment	720	
Cash at Bank	20000	
Cash in Hand		
Taxation Provision	730	
Investment Income		10000
Repairs to Plant		620
Rent Paid	400	
Preliminary Expenses	3000	
Investment Fluctuation Fund	1000	
Profit and Loss A/C Balance		300
		6050
	105310	**105310**

You are required to prepare Trading and Profit and Loss Account and Profit and Loss Account Appropriation Account for the year ended December 31, 2024 and a Balance Sheet as at that date required to prepare Trading and Profit and Loss Account and Profit and Loss You are having regard to the following:

(i) Closing Stock (Cost) Tk. 18,000 (Market Price Tk. 15,000).

(ii) All goods on consignment have been sold for Tk. 1,000 subject to agent commission of 6%. (iii) It was resolved to forfeit shares in default.

(iv) Create a provision of 10% on debtors for bad and doubtful debt.

(v) Taxation provision to be increased to Tk. 13,000.

(vi) Transfer Tk. 1,000 to General Reserve and Tk. 1,500 to Dividend Equalization Fund.

(vii) Depreciate plant @ 10% per annum.

(viii) Dividend was proposed at 10%.

(ix) 20% of Preliminary Expenses were to be written off.

(x) Increase the Investment Fluctuation Fund to cover the fall in the market price.

Solution:

Workings Notes:

(a) Calculation of profit on consignment	**Tk**
Sale price of consigned goods	1000
Less: Commission at 6% on Tk.100	60
Receivable from consigned	940
Less: Cost price (Goods out on consignment)	720
	220

Profit

(b) Calculation of proposed dividend	**Tk**
Capital as per Trial Balance	30000
Less: Capital for forfeited shares (200 x Tk. 7.50)	1500
Subscribed and Paid up Capital	**28500**
Proposed Dividend 10% of Tk. 28,500	2850

Ruposhi Bangla PLC

Trading and Profit and Loss Account

For the year ended December 31, 2024

	Debit		**Credit**
Opening Stock	12720	Sales	46310
Purchases	29120	Closing Stock	15000
Wages and Salaries	4100		
Repairs to Plant	400		
Depreciation on Plant	800		
Rent	3000		
Gross Profit C/D	11170		
	61310		**61310**
Sundry Expenses	1820	Gross Profit B/D	11170
Provision for Bad And Doubtful Debts	1420	Investment Income	620
Transfer to Investment Fluctuation Fund	100	Profit out of consignment	220
Preliminary Expenses Written Off	200		
Net Profit	8470		
	12010		**12010**

Ruposhi Bangla PLC

Profit and Loss Appropriation Account

For the year ended December 31, 2024

	Debit		**Credit**
Proposed Dividend	2850	Balance B/D	6050
Provision for Income Tax	3000	Profit and Loss A/C	8470
Creation of General Reserve	1000		
Transfer to Dividends Equalization Fund	1500		
Balance C/D	6170		
	14520		**14520**

Ruposhi Bangla PLC
Balance Sheet
December 31, 2024

Property and Assets		Debit	Capital and Liabilities	Credit
Plant	8000		**Authorized Share Capital:**	
Less: Depreciation	800		5,000 shares @ Tk. 10 each	50000
		7200	**Issued Share Capital**	
Preliminary Expenses	1000		4,000 shares of Tk. 10 each	40000
Less: Written off	200		**Subscribed Share Capital:**	
		800	3,800 shares @ Tk. 10 Tk. 7.50 called	28500
Closing Stocks		15000	Share Forfeiture A/C	1000
Investments		9000	General Reserve (5,000+ 1,000)	6000
Due to consignee		940	Dividend Equalization Fund	6500
Sundry Debtors		14200	Proposed Dividend	2850
Cash at bank		20000	Provision for Taxation (10,000+ 3,000)	13000
Cash in hand		730	Investment Fluctuation Fund (300 + 100)	400
			Provision for Bad and Doubtful	
			Debts	1420
			Creditors	2030
			Profit and Loss Appr. A/c Balance	6170
		67870		**67870**

Journal for adjustment (iii)

Share Capital A/C Dr. 1,500 (200 Shares X Tk. 7.50)

To Call Account 500 To

Share Forfeiture A/C 1000. (200 Shares X Tk. 5)

(200 Shares forfeited for Non-Payment of call money as per Boards resolution dated….)

Practical Problem # 11

From the following balances which appeared as on December 31, 2024 in the book of Babul and Wahid PLC prepare the Profit and Loss Account for the year ended December 31, 2024 Dr and its Balance Sheet as on that date**:**

	Debit	Credit
Authorized and issued shares of Tk. 10 each		3000000
General Reserve		300000

Provision for Taxation on 1st January, 2024		441000
Profit and Loss Account		573850
Taxation payment (advance)	365400	
6% Mortgage Debentures		1000000
Balance from Trading Account		1052000
Interim Dividend for the year	172500	
Debenture Redemption Reserve		200000
Share Premium Account		50000
Directors Fees	20000	
Unexpired Payments	30000	
Debenture Interest	48000	
Creditors and Accrued Charges		2034800
Balance at Bank	250000	
Cash in hand	5000	
Tax deducted at source on Dividend on Investments	15750	
Dividend on Investments		50000
Investments at costs (Market value Tk. 4,73,750)	500000	
Debtors	2455000	
Stock and Work-in-Progress	1660000	
Vehicles (cost Tk. 1,50,000)	100000	
Furniture and Equipment (Cost Tk. 2,00,000)	160000	
Machinery (Cost Tk. 30,00,000)	2120000	
Land and Buildings (Cost Tk. 10,00,000)	800000	
	8701650	**8701650**

Adjustments:

1. Depreciation Provision for the year charged against trading; Land and Buildings Tk. 50,00; Machinery Tk. 3,00,000; furniture and Equipment Tk. 16,000 and Vehicles Tk. 25,000.
2. Director's remuneration charges against trading; Salaries Tk. 1,00,000 and Pension to retire marriage director Tk. 15,000.
3. Provision for taxation required tk. 5,03,270.

Directors recommended: (a) transfer of Tk. 2,00,000 to debenture redemption reserve; (b) transfer of Tk. 3,50,000 to general reserve; and (c) payment of final dividend at 12%.

Solution:

Working notes:

Depreciation and directors remuneration have been charged against trading, the gross profit has, therefore, been arrived at as below:

Balance from Trading Account	1052000
Add: Depreciation on :	
Land and Buildings	50000
Machinery	300000
Furniture and Equipment	16000
Vehicles	25000
Add: Directors Remuneration:	
Salaries	100000
Pension to Managing Directors	15000
Gross Profit	**1558000**

(P/L)

Babul and Wahid PLC

Profit and Loss Account

For the year ending Dec. 31, 2024

	Dr.		**Cr.**
Depreciation:		Gross Profit B/D	1558000
Land and Buildings	50000	Dividend on Investment	50000
Machinery	300000		
Furniture and Equipment	16000		
Vehicles	25000		
Interest on Debentures	60000		
Directors Salaries	100000		
Directors Fees	20000		
Pension to Managing Directors	15000		
Provision for fall in price of Investment	26250		
Net Profit C/D	995750		
	1608000		**1608000**

Babul and Wahid PLC

Profit and Loss Appropriation Account

For the year ended Dec 31, 2024

Particulars		Dr.		Cr.
Interim Dividend		172500	Balance	573850
Transfer To Debenture Redemption Reserve		200000	Net Profit	995750
Transfer To General Reserve		350000		
Proposed Dividend		360000		
Provision for Taxation:				
Provision Required	503270			
Less: Existing	441000			
		62270		
Balance Transfer to B/S		424830		
		1569600		**1569600**

(BS)

Babul and Wahid PLC

Balance Sheet

31 December 2024

Property and Assets		**Debit**	**Capital and Liabilities**		**Credit**
Land and Buildings	1000000		**Share Capital :**		
Less: Depreciation	200000		**Authorized Capital :**		
		800000	3,00,000 shares of Tk. 10 each Issued,		**3000000**
Machinery	3000000		**Subscribed and Paid up Capital:**		
Less: Depreciation	880000		3,00,000 shares of Tk. 10 each		3000000
		2120000	Share Premium		50000
Furniture and Equipment	200000		General Reserve	300000	
Less Depreciation	40000		Add: New Reserve	350000	
		160000			650000
Vehicles	150000		Debenture Redemption Reserve	200000	
Less: Depreciation	50000		Add: New Reserve	200000	

		100000		400000
Investment	500000		Provision for Taxation	503270
Less: Provision	26250		6% Mortgage Debentures	1000000
		473750	Creditors and Accrued charges	2034800
Stock and Work-in-Progress		1660000	Interest on Debentures due	12000
Sundry Debtors		2455000	Proposed Dividend	360000
Unexpired Payments		30000	Profit and Loss A/c	424830
Advance Payment of Tax		365400		
Tax deducted at source		15750		
Cash at Bank		250000		
Cash in hand		5000		
		8434900		**8434900**

Statement of Cash Flow - Practical Problem Solved

Practical Problem # 12

[Banking Diploma Examination, Part-II; May 2011, slightly changed]

Presented below are the comparative balance sheets for Nexus Company PLC on December 31.

Nexus Company PLC

Comparative Balance Sheets December 31

	2024	**2023**
Assets:		
Cash	Tk. 45,000	Tk. 57,000
Accounts receivable	72,000	64,000
Inventory	1,32,000	1,40,000
Prepaid expenses	12,140	16,540
Land	1,25,000	1,50,000
Equipment	2,00,000	1,75,000
Accumulated depreciation – Equipment	(60,000)	(42,000)
Building	2,50,000	2,50,000

Accumulated depreciation – building	(75,000)	(50,000)
	Tk. 7,01,140	Tk. 7,60,540
Liabilities and Stockholder's Equity:		
Accounts payable	Tk. 38,000	Tk. 45,000
Bonds payable	2,35,000	2,65,000
Common stock, Tk. 1, par	2,80,000	2,50,000
Retained earnings	1,48,140	2,00,540
	Tk. 7,01,140	Tk. 7,60,540

Additional information:

1. Operating expenses include depreciation expense of Tk. 70,000 and charges from prepaid expenses of Tk. 4,000
2. The land was sold for cash at cost.
3. Cash dividends of Tk. 79,290 were paid.
4. Net income for 2012 was Tk. 26,890.
5. Equipment was purchased for Tk. 65,000 cash. In addition, equipment costing Tk. 40,000 with a book value of Tk. 13,000 was sold for Tk. 14,000 cash.
6. Bonds were converted at face value by issuing 30,000 shares of Tk. 1 par value common stock.
7. Net sales in 2024 were Tk. 3,67,000.

Instructions:

(a) Prepare a statement of cash flows for 2012 using the indirect method.

(b) Compute the following cash-basis ratios for 2024.

(1) Current cash debt coverage ratio. (2) Cash return on sales ratio (3) Cash debt coverage ratio.

Solution

Nexus Company PLC

Statement of cash flows using the indirect method

For the year ended December 31, 2024

	Amount	**Amount**
Cash flows from operating activities:		
Net income		Tk. 26,890
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	70,000	
Increase in accounts receivable (72,000 – 64,000)	(8,000)	

Decrease in merchandise inventories (1,40,000 – 1,32,000)	8,000	
Decrease in accounts payable (45,000 – 38,000)	(7,000)	
Decrease in prepaid expense (16,540 – 12,140	4,400	
Gain on sale of equipment (14,000 – 13,000	(1,000)	66,400
Net cash provided by operating activities		93,290
Cash flows from investing activities:		
Sale of equipment	14,000	
Purchase of equipment	(65,000)	
Sale of Land (1,50,000 – 1,25,000)	25,000	
Net cash used by investing activities		(26,000)
Cash flows from financing activities:		
Payment of cash dividends	(79,290)	
Net cash used by financing activities		(79,290)
Net decrease in cash		(12,000)
Cash at the beginning of the period		57,000
Cash at the end of the period		45,000

Required-(b):

1. **Current cash debt coverage ratio =** Net cash provided by operating activities/Average current liabilities = 93,290/ (38,000 + 45,000)/2 = 2.481:1
2. **Cash return on sales ratio** = Net cash provided by operating activities/Net sales

   = 93,290/3,67,000 = 25.42%
3. **Cash debt coverage ratio** = Net cash provided by operating activities/Average total liabilities

   = 92,290/ [(38,000 + 2,35,000) + (45,000 + 2,65,000)]/2

   = 93,290/2,91,500 = 0.320:1

Practical Problem # 13

[Banking Diploma Examination, Part-II; May 2011, slightly changed]

Presented below are the comparative balance sheets for Diana Willy Company PLC as of December 31,

Diana Willy Company PLC

Comparative Balance Sheets December 31

	2024	**2023**
Assets	Tk. 39,000	Tk. 45,000
Cash		52,000
Accounts receivable	49,500	1,42,000
Inventory	1,51,450	
Prepaid expenses	16,780	21,000
Land	1,00,000	1,30,000
Equipment	2,28,000	1,55,000
Accumulated depreciation – equipment	(45,000)	(35,000)
Building	2,00,000	2,00,000
Accumulated depreciation – building	(60,000)	(40,000)
	Tk. 6,79,730	Tk. 6,70,000
Liabilities and Stockholders' Equity:		
Accounts payable	Tk. 38,730	Tk. 40,000
Bonds payable	2,50,000	3,00,000
Common stock, Tk. 1 par	2,00,000	1,50,000
Retained earnings	1,91,000	1,80,000
	Tk. 6,79,730	Tk. 6,70,000

Additional information:

1. Operating expenses include depreciation expense of Tk. 42,000.
2. The land was sold for cash at book value.
3. Cash dividends of Tk. 27,000 were paid.
4. Net income for 2012 was Tk. 38,000.
5. Equipment was purchased for Tk. 95,000 cash. In addition, equipment costing Tk. 22,000 with a book value of Tk. 10,000 was sold for Tk. 8,100 cash.
6. Bonds were converted at face value by issuing 50,000 shares of Tk. 1 par value common stock.
7. Net sales for 2024 totalled Tk. 4,20,000.

Instructions:

(a) Prepare a statement of cash flows for the year ended December 31, using the indirect method.

(b) Compute the following cash-basis ratios for 2024.

(1) Current cash debt coverage ratio

(2) current cash debt coverage ratio

(3) Cash return on sales ratio.

Solution

Required-(a)

Diana Willy Company PLC

Statement of Cash Flows using the indirect method

For the year ended December 31, 2024

	Amount	Amount
Cash flows from operating activities:		
Net income		Tk. 38,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	42,000	
Decrease in accounts receivable (52,000 – 49,000)	2,500	
Increase in merchandise inventories (1,51,450 – 1,42,000)	(9,450)	
Decrease in prepaid expense (21,000 – 16,780)	4,220	
Decrease in accounts payable (40,000 – 38,730)	(1270)	
Loss on sale of equipment (10,000 – 8,100)	1,900	39,900
Net cash provided by operating activities		77,900
Cash flows from investing activities:		
Sale of land (1,30,000 – 1,00,000)	30,000	
Purchase of equipment	(95,000)	
Sale of equipment	8,100	
Net cash used by investing activities		(56,900)
Cash flows from financing activities:		
Payment of cash dividends	(27,000)	
Net cash used by financing activities		(27,000)
Net decrease in cash		(6,000)
Cash at the beginning of the period		45,000
Cash at the end of the period		Tk. 39,000

Required-b:

1. **Current cash debt coverage ratio** = Net cash provided by operating activities/Average current liabilities = 77,900/(38,730 + 40,000)/2 = 77,900/39,365 = 1.979:1
2. **Cash return on sales ratio** = Net cash provided operating activities/Net sales

   = 77,900/4,20,000 = 18.55%
3. **Cash debt coverage ratio** = Net cash provided by operating activities/Average total liabilities

   = 77,900/(38,730 + 2,50,000) + (40,000 + 3,00,000)/2

   = 77,900/3,14365 = 0.248:1

Practical Problem # 14

[Banking Diploma Examination, Part-II; Nov. 2006, slightly changed]

Presented below is information related to Transtec Company PLC. Use it to prepare a statement of cash flows using the indirect method.

Transtec Company PLC

Comparative Balance Sheets

December 31

	2024 Tk.	**2023 Tk.**	**Change Increase/Decrease (Tk.)**
Assets:			
Cash	54,000	37,000	17,000 Increase
Accounts receivable	68,000	26,000	42,000 Increase
Inventories	54,000	---	54,000 Increase
prepaid expenses	4,000	6,000	2,000 Decrease
Land	45,000	70,000	25,000 Decrease
Building	2,00,000	2,00,000	---
Accumulated depreciation – buildings	(21,000)	(11,000)	10,000 Increase
Equipment	1,93,000	68,000	1,25,000 Increase
Accumulated depreciation – equipment	(28,000)	(10,000)	18,000 Increase
Total	5,69,000	3,86,000	
Liabilities and Stockholders' Equity:			
Accounts payable	23,000	40,000	17,000 decrease
Accrued expenses payable	10,000	---	10,000 Increase
Bonds payable	1,10,000	1,50,000	40,000 Decrease
Common stock (Tk. 1 par)	2,20,000	60,000	1,60,000 Increase
Retained earnings	2,06,000	1,36,000	70,000 Increase
Total	5,69,000	3,86,000	

Transtec Company PLC

Income Statement

For the year ended December 31, 2024

	Tk.	Tk.
Revenues		8,90,000
Cost of goods sold	4,65,000	
Operating expenses	2,21,000	
Interest expense	12,000	
Loss on sale of store equipment	2,000	7,00,000
Income from operations		1,90,000
Income tax expense		65,000
Net income		1,25,000

Additional information:

1. Operating expenses include depreciation expense of Tk. 33,000 and charges from prepaid expenses of Tk. 2,000.
2. The land was sold at its book value for cash.
3. Cash dividends of Tk. 55,000 were declared and paid in 2024.
4. Interest expense of Tk. 12,000 was paid in cash.
5. Equipment with a cost of Tk. 1,66,000 was purchased in cash. Equipment with a cost of Tk. 41,000 and a book value of Tk. 36,000 was sold for Tk. 34,000 cash.
6. Bonds of Tk. 10,000 were redeemed at their book value for cash. Bonds of Tk. 30,000 were converted into common stock.
7. Common stock (Tk. 1 par) of Tk. 1,30,000 was issued in cash.
8. Accounts payable pertain to merchandise suppliers.

Action plan:

(a) Determine the net increase/decrease in cash

(b) Determine net cash provided/used by operating activities by adjusting net income for items that did not affect cash.

(c) Determine net cash provided/used by investing activities.

(d) Determine net cash provide/used by financing activities.

Solution

Transtec Company PLC

Statement of Cash Flows-Indirect method

For the year ended December 31, 2024

	Tk.	Tk.
Cash flows from operating activities:		
Net income		1,25,000
Adjusted to reconcile net income to net cash provided by operating activities:		
Depreciation expense	33,000	
Increase in accounts receivable	(42,000)	
Increase in inventories	(54,000)	
Decrease in prepaid expenses	2,000	
Decrease in accounts payable	(17,000)	
Increase in accrued expenses payable	10,000	
Loss on sale of equipment	2,000	(66,000)
Net cash provided by operating activities		59,000
Cash flows from investing activities:		
Sale of land	25,000	
Sale of equipment	34,000	
Purchase of equipment	(1,66,000)	
Net cash used by investing activities		(1,07,000)
Cash flows from financing activities:		
Redemption of bonds	(10,000)	
Sale of common stock	1,30,000	
Payment of dividends	(55,000)	
Net cash provided by financing activities		65,000
Net increase in cash		17,000
Cash at beginning of the period		37,000
Cash at end of the period		54,000
Non-cash investing and financing activities:		
Conversion of bonds into common stock		30,000

Practical Problem # 15

[Banking Diploma Examination, Part-II; May 2006, slightly modified]

From the following information, prepare a Cash Flow Statement for Iman Company PLC.

Iman Company PLC

Income Statement:

For the year ended December 31, 2024

	Taka
Revenues	25,00,000
Cost of goods sold	(12,00,000)
Depreciation expense	(2,50,000)
Salaries expense	(4,00,000)
Tax expense	(1,00,000)
Net income	6,50,000

Balance Sheet:

Comparative balance Sheet as at

	31-12-2024	31-12-2023
	Taka	**Taka**
Cash	5,00,000	9,00,000
Accounts receivable	5,50,000	4,50,000
Notes receivable	1,50,000	1,50,000
Inventories	10,00,000	7,50,000
Buildings	10,00,000	10,00,000
Plant and equipment	10,00,000	9,00,000
Accumulated depreciation (on Plant	(4,00,000	(3,50,000)
Land	3,00,000	3,80,000
Total	41,00,000	41,80,000

Liabilities and Stockholders' Equity:

	Taka	**Taka**
Accounts payable	7,00,000	8,00,000
Salaries payable	50,000	1,00,000
Expense payable	50,000	50,000
Bonds payable, 12%	11,00,000	10,80,000
Common stock	8,00,000	6,00,000
Additional paid-in capital	4,00,000	3,00,000
Retained Earnings	10,00,000	12,00,000
Total	41,00,000	41,00,000

Additional information: A piece of machinery of Tk. 5,00,000 and accumulated depreciation of Tk. 3,00,000 was sold for Tk. 3,00,000. Common stock originally issued for Tk. 3,00,000 was acquired for Tk. 3,50,000, retired (repaid). The difference of Tk. 50,000 was debited to retained earnings. The total dividends declared and paid during 2024 was Tk. 3,50,000.

Solution

Working-1: Net Income on a cash basis

	Tk.
Net Income	6,50,000
Add: Depreciation expense	2,50,000
	6,00,000
Less: Gain on the sale of equipment	1,00,000
Net Income (On a cash basis)	8,00,000

Working-2: Plant & Equipment:

	Tk.
Beginning balance (31/12/2024	10,00,000
Less: Sold Remaining	5,00,000
	5,00,000
Closing balance (321/12/2024	9,00,000

∴ Equipment purchased (9,00,000 – 5,00,000) = Tk. 4,00,000

Working-3: Issue of Common Stock

	Tk.
Common stock (on 31/12/2023)	8,00,000
Less: Retired (Repurchased)	3,00,000
	5,00,000
Common stock (on 31/12/2024)	6,00,000

∴ Common Stock issued = (6,00,000 – 5,00,000) = Tk. 1,00,000

Iman Company PLC

Statement of Cash Flows

For the year ended December 31, 2024

	Tk.	Tk.
Cash Flow from Operating Activities:		
Net Income on a cash basis (W-1)		8,00,000
Changes in Working Capital:		
Decrease in accounts receivable (5,50,000 – 4,50,000)	1,00,000	
Decrease in inventories (10,00,000 – 7,50,000)	2,50,000	
Increase in accounts payable (8,00,000 – 7,00,000)	1,00,000	
Increase in salaries payable (1,00,000 – 50,000)	50,000	5,00,000
Net cash provided by operating activities		13,00,000
Cash Flow from Investing Activities:		
Purchase of equipment (W-2)	(4,00,000)	
Sale of equipment	3,00,000	
Pur5chase of land by investing activities	(80,000)	
Net cash used by investing activities		13,00,000
Cash Flow from Financing Activities:		
Redemption of bonds (11,00,000 – 10,80,000)	(20,000)	
Issue of common stock (W-3)	1,00,000	
Repurchase of common stock	(3,50,000)	
Payment dividends	(3,50,000)	
Decreasing additional paid-in capital (4,00,000 – 3,00,000)	(1,00,000)	
Net cash used by financing activities		(7,20,000)
Net Increase in cash		4,00,000
Cash at beginning of the period		5,00,000
Cash at the end of the period		9,00,000

Practical Problem # 16

[Banking Diploma Examination, Part-II; Nov. 2005, slightly changed]

Presented below is the Comparative Balance Sheet for Islam Corporation as of Dec. 31:

Assets	2024 Taka	2023 Taka
Cash	41,000	45,000
Accounts receivable	47,500	52,000
Inventory	1,51,450	1,42,000
Prepaid expenses	16,780	21,000
Land	1,00,000	1,30,000
Equipment	2,28,000	1,55,000
Accumulated depreciation-equipment	(45,000)	(35,000)
Building Accumulated depreciation-building	2,00,000	2,0,000
	(60,000)	(40,000)
	6,79,730	6,70,000
Liabilities and Stockholders' Equity:		
Accounts payable	43,730	40,000
Bonds Payable	2,50,000	3,00,000
Common stock, Tk. 10 par	2,00,000	1,50,000
Retained earnings	1,86,000	1,80,000
	6,79,730,	6,70,000

Additional information:

1. Operating expenses include depreciation expense of Tk. 42,000 and charges from prepaid expenses of Tk. 4,220;
2. The land was sold for cash at book value;
3. Cash dividends of Tk. 32,000 were paid;
4. Net income for the year was Tk. 38,000.
5. Equipment was purchased for Tk. 95,000 cash. In addition, equipment costing Tk. 22,000 with a book value of Tk. 10,000 was sold for Tk. 8,100 cash; and
6. Bonds were converted at face value by issuing 5,000 shares of Tk. 10 par value common stock.

Instructions:

Prepare a statement of cash flow for the year ended December 31, 2024, using the indirect method.

Solution:

Cash flow Statement

For the year ended 31 December 2024

	Amount (Tk.)
A. Cash Flow from Operating Activities:	
Net Profit	38,00
Add, Depreciation	42,000
Add, Charges from Prepaid Expenses	4,220
Add, Loss on sale of Equipment	1,900
Add, Decrease in Acc, Receivable	4,500
Less, Increase in Inventory	(9,450)
Add, Increase in Accounts Payable	3,730
Net Cash flow from Operating Activities	84,900
B. Cash Flow from Investment Activities:	
Sale of Land	30,000
Sale of Equipment	8,100
Purchase of Equipment	(95,000)
Net Cash flow from Investment Activities	(56,900)
C. Cash Flow from Financing Activities:	
Payments of Dividend	(32,000)
Net Cash Flow from Financing Activities	(32,000)
D. Net Cash Flow from 3 Activities (A + B + C)	(4,000)
E. Beginning Cash Balance	45,000
F. closing Cash Balance	41,000

Practical Problem # 17

[Banking Diploma Examination, Part-II; Nov. 2005; May – June 2005, slightly changed]

The financial statements of Jim Carrey Company appear below.

Jim Carrey Company

Comparative Balance Sheets

December 31

Assets		**2024**		**2023**
Cash		Tk. 24,000		Tk. 13,000
Accounts receivable		20,000		14,000
Merchandise inventory		38,000		35,000
Property, plant and equipment	Tk. 70,000		Tk. 79,000	
Less: Accumulated depreciation	(30,000)	40,000	(24,000)	54,000
Total		Tk. 1,22,000		Tk. 1,16,000
Liabilities and Stockholders' Equity				
Accounts payable		Tk. 26,000		Tk. 33,000
Income taxes payable		15,000		20,000
Bounds payable		20,000		10,000
Common stock		25,000		25,000
Retained earnings		Tk. 36,000		Tk. 28,000
Total		Tk. 1,22,000		Tk. 1,16,000

Jim Carrey Company

Income Statement

For the year ended December 31, 2024

Sales		Tk. 2,40,000
Cost of goods sold		1,80,000
Gross profit		60,000
Selling expenses	Tk. 24,000	
Administrative expenses	10,000	34,000
Income from operation		26,000
Interest expenses		2,000
Income before income taxes		24,000
Income tax expenses		7,000

Net income		Tk. 17,000

Additional information:

1. Dividends of Tk. 9,000 were declared and paid.
2. During the year equipment was sold for Tk. 10,000 cash. This equipment cost Tk. 15,000 originally and had a book value of Tk. 10,000 at the time of sale.
3. All depreciation expenses, Tk. 11,000, at the time of sale.
4. All sales and purchases are on account.
5. Additional equipment was purchased for Tk. 7,000 cash.

Instructions:

Prepare a statement of cash flow using the indirect method and the direct method.

Solution

Jim Carrey Company

Statement of Cash flows using the direct method

For the year ended December 31, 2024

Cash flows from operating activities:		
Cash receipts:		
Cash receipts from customers (Note-1)		Tk. 2,34,000
Cash payments:		
Payment of accounts payable for merchandise (Note-2)	Tk. 1,90,000	
Payment of operating expenses (Note-3)	23,000	
Payment of income taxes (Note-4)	12,000	
Payment of interest	2,000	Tk. (2,27,000)
Net cash provided by operating activities		7,000
Cash flows from investing activities:		
Sale of equipment	10,000	
Purchase of equipment	(7,000)	
Net cash provided by investing activities		3,000
Cash flows from financing activities:		
Payment of cash dividends	(9,000)	
Issuance of Bonds Payable (20,000 – 10,000)	10,000	
Net cash provided by financing activities		1,000
Net increase in cash		11,000
Cash at the beginning of the period		13,000

Cash at the end of the period		Tk. 24,000

Tutorial notes:

1. Cash receipts from Customers = Sales – Increase in Accounts Receivable = Tk. 2,40,000 – 6,000 = Tk. 2,34,000.

2. Cash payments to suppliers

Cash of Goods sold	Tk. 1,80,000
Add: increase in inventory	3,000
Cost of purchase	1,83,000
Add: decrease in accounts payable	7,000
Cash payments to suppliers	1,90,000

3. Cash payments for operating expenses

Operating expenses (24,000 + 10,000)	Tk. 34,000
Less: depreciation expenses	(11,000)
Cash payments for operating expenses	23,000

4. Cash payments for income tax expenses:

Income tax expenses	7,000
Add: decrease in income taxes payable	5,000
Cash payments for income tax expenses	Tk. 12,000

Jim Carrey Company

Statement of cash flows for 2024 using the indirect method.

For the year ended December 31, 2024

	Amount	**Amount**
Cash flows from operating activities:		
Net income		Tk. 17,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	11,000	
Increase in accounts receivable (20,000 – 14,000)	(6,000)	
Decrease in merchandise inventories (38,000 – 35,000)	3,000	
Decrease in accounts payable (33,000 – 26,000)	(7,000)	
Decrease in income tax payable (20,000 – 15,000)	(5,000)	(10,000)
Net cash provided by operating activities		7,000
Cash flows from investing activities:		

Sale of equipment	10,000	
Purchase of equipment	(7,000)	
Net cash provided by investing activities		3,000
Cash flows from financing activities:		
Payment of cash dividends	(9,000)	
Issuance of Bonds Payable (20,000 – 10,000)	10,000	
Net cash provided by financing activities		1,000
Net increase in cash		11,000
Cash at the beginning of the period		13,000
Cash at the end of the period		Tk. 24,000

Practical Problem # 18

[Banking Diploma Examination, Part-II; Nov. 2005, slightly modified]

The financial statement of Paramount Textile Company is appearing below:

Paramount Textile Company
Balance Sheet
December 31

Particulars	2024	2023
Assets:		
Cash	Tk. 2,900	Tk. 1,300
Accounts receivable	2,800	1,400
Inventories	2,500	3,500
Plant & equipment	6,000	7,800
Accumulated depreciation- Plant & Equipment	(2,000)	(2,400)
Totals	Tk. 12.200	Tk. 11,600
Liabilities & Stockholder’s Equity:		
Accounts payable	Tk. 2,900	Tk. 2,300
Income taxes payable	500	800
Bonds payable	2,700	3,300
Common stock	1,800	1,400
Retained earnings	4,300	3,800
Totals	Tk. 12,200	Tk. 11,600

Paramount Textile Company
Income Statement
For the year ended December 31, 2024

Particulars	Tk.	Tk.

Sales revenue		22,000
Cost of goods sold		18,000
Gross profit		4,000
Selling expense	1,400	
Administrative expense	1,000	2,400
Income from operation		1,600
Interest expense		200
Income before income tax		1,400
Income tax expense		400
Net income		Tk. 1,000

The following additional data were provided:

1. A cash dividend of Tk. 500 were declared and paid.
2. During the year equipment was sold for Tk. 850 cash. The equipment cost Tk. 1,800 originally and had a book value of Tk. 850 at the time of sale. The equipment cost Tk. 1,800 originally and had a book value of Tk. 850 at the time of sale. The equipment cost Tk. 1,800 originally and had a book value of Tk. 850 cash. The equipment cost of Tk. 1,800 originally and had a book value of Tk. 850 cash. The equipment cost Tk. 1,800 originally and had a book value of Tk. 850 at the time of sale.
3. All depreciation expense is in the selling expense category.
4. All sales and purchases are on account.

You are required to prepare a statement of cash flow for 2024 using the indirect method and a statement of cash flow for 2024 using the direct method.

Solution

Paramount Textile Company

Statement of Cash Flows-Indirect Method

For the year ended December 31, 2024

Particulars	Tk.	Tk.
1. Cash flows from operating activities:		
Net income		1,000
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation expense (Note-1)	550	

Increase in accounts receivable	(1,400)	
Decrease in inventories	1,000	
Increase in accounts payable	600	
Decrease in income tax payable	(300)	
Net cash provided by operating activities		450
		1,450
2. Cash flows from investing activities:		
Sale of equipment		850
3. Cash flows from financing activities:		
Payment of cash dividend	(500)	
Issuance of Common Stock	400	
Redemption of bonds	(600)	
Net cash used by financing activities		(700)
Net increase in cash		1,600
Cash at beginning of the period		1,300
Cash at end of the period		2,900

Note-1:

Depreciation expense

(Tk. 1,800 – Tk. 850) = Tk. 950

(Tk. 2,400 – Tk. 950) = Tk. 1,450

(Tk. 2,000 – Tk. 1,450) = Tk. 550

Paramount Textile Company

Statement of Cash Flows-Direct method

For the year ended December 31, 2024

Particulars	Tk.	Tk.
1. Cash flows from operating activities:		
Cash received from customers (Notes-1)		20,600
Cash paid to suppliers (Notes-2)	16,400	
For operating expenses (2,400 – 550)	1,850	
For interest	200	
For income taxes (Notes-1)	700	19,150
Net cash provided by operating activities		1,450
2. Cash flow from investing activities:		

Sale of equipment		850
3. Cash flow from financing activities:		
Payment of cash dividend	(500)	
Issuance of common stock	400	
Redemption of bonds	(600)	
Net cash used by financing activities		(700)
Net increase in cash		1,600
Cash at beginning of the period		1,300
Cash at end of the period		2,900

Notes to the Financial Statements:

1. Cash received from customers:	
Sales	Tk. 22,000
Less: Increased in accounts receivable	1,400
Cash received from customers	20,600

2. Cash payment to suppliers:	
Cost of goods sold	Tk. 18,000
Less: Decrease in inventory	1,000
Cost of purchase	17,000
Less: increased in accounts payable	600
Cash payment to the supplier	16,400

3. Cash payments operating expense:	
Operating expenses	Tk. 2,400
Less: Depreciation	550
Cash payment for Operating expense	1,850

4. Cash paid for income taxes:	
Income tax expenses	Tk. 400
Add: Decreased in income tax payable	300
Cash paid for income taxes	700

Practical Problem # 19 [Banking Diploma Examination, Part-II; Nov. 2002, slightly modified]

Comparative Balance Sheets for Pioneer Company are resented below:

Pioneer Company Comparative Balance Sheets December 31

Assets:	**2024**	**2023**
Cash	Tk. 63,000	Tk. 22,000
Accounts receivable	85,000	76,000
Inventories	1,80,000	1,89,000
Land	75,000	1,00,000
Equipment	2,60,000	2,00,000
Accumulated depreciation	(66,000)	(42,000)
Total	Tk. 5,97,000	Tk. 5,45,000
Liabilities and Stockholders' Equity:		
Accounts payable	Tk. 34,000	Tk. 47,000
Bonds payable	1,50,000	2,00,000
Common stock (Tk. 1 par)	2,14,000	1,64,000
Retained earnings	1,99,000	1,34,000
Total	5,97,000	Tk. 5,45,000

Additional information:

1. Net income for 2024 was Tk. 1,25,000.
2. Cash dividends of Tk. 60,000 were declared and paid.
3. Bonds payable amounting to Tk. 50,000 was redeemed for cash Tk. 50,000.
4. Common stock was issued for Tk. 50,000 cash.
5. Depreciation expense was Tk. 24,000.
6. Sales for the year were Tk. 9,78,000.

Required: Prepare a statement of cash flow for 2024 using the indirect method.

Solution

Required-(a):

Pioneer Company

Statement of cash flows for 2024 using the indirect method

For the Year Ended December 31, 2024

Cash flows from operating activities:	**Amount**	**Amount**
Net income		Tk. 1,25,000

Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation expense	24,000	
Increase in accounts receivable (85,000 – 76,000)	(9,000)	
Decrease in inventories (1,89,000)	9,000	
Decrease in accounts payable (47,000 – 34,000)	(13,000)	11,000
Net cash provided by operating activities		1,36,000
Cash flows from investing activities:		
Sale of Land (1,00,000 – 75,000)	25,000	
Purchase of equipment (2,60,000 – 2,00,000)	(60,000)	
Net cash used by investing activities		(35,000)
Cash flows from financing activities:		
Payment of cash dividends	(60,000)	
Redemption of Bonds	(50,000)	
Issuance of Common stock	50,000	
Net cash used by financing activities		(60,000)
Net increase in cash		41,000
Cash at beginning of the period		22,000
Cash at the end of the period		Tk. 63,000

Short Questions

1. What are financial statements, and what purpose do they serve?
2. How do financial statements help assess a company's current financial status?
3. What are the three key financial statements commonly used to evaluate a company's performance?
4. How does a balance sheet provide insights into a company’s financial condition?
5. What equation is fundamental to the balance sheet, and why must it remain balanced?
6. How are assets classified on a balance sheet, and what is the difference between current and non-current assets?
7. What are liabilities, and how are they categorized on a balance sheet?
8. What is owners' equity, and how does it relate to a company’s net assets?
9. How does an income statement help assess a company’s operating results?
10. What are the key components of an income statement, and what do they represent?
11. How does the cash flow statement provide insights into a company’s liquidity and cash management?
12. What are current liabilities, and how do they differ from non-current liabilities?
13. How does the statement of changes in equity reflect changes in a company’s financial position?
14. What is the significance of prepaid expenses and accounts receivable in financial reporting?
15. What role do retained earnings and reserves play in a company’s financial structure?
16. What are the three main sections of a cash flow statement?
17. How does the statement of cash flows help assess a company's liquidity?
18. Why is the cash flow statement considered important for managers?
19. What does cash include in the context of the statement of cash flows?

20. How do cash flows from operating activities differ between the direct and indirect methods?
21. What types of activities are classified under investing activities in a cash flow statement?
22. In the cash flow statement, how are financing activities defined?
23. What information is needed to prepare a statement of cash flows?
24. Why must cash flows be presented in gross amounts rather than net amounts for investing and financing activities?
25. How can the statement of cash flows help in detecting fraud in the accounts?
26. What are some common sources of cash inflows from operating activities?
27. How can cash payments to suppliers be calculated in the direct method of cash flows?
28. What role does depreciation play in calculating cash flows from operating activities?
29. Why are direct exchange transactions not reported in the cash flow statement?
30. What is the significance of having a positive cash flow from operating activities?

Module E: Financial Statements of Banks in Bangladesh

IBB Syllabus: Module E: Financial Statements for Banks • Balance Sheet, Profit and Loss Account, Cash flow statement, Statement of Changes in equity, Note to Financial Statements, Basic IFRS Chart of Accounts for Banks.

Contents of this Chapter
Introduction:
Types of Financial Statements for Banks:
Key Components of Bank Financial Statements
Importance of Financial Statements
Regulatory Framework for Bank Financial Statements:
Key Disclosures and Reporting Requirements
Structure, contents and Instructions for preparation of financial statements of Banks
Financial Statements of Shariah-based Banks in Bangladesh: Key Aspects, Regulations, and Comparisons
Regulatory Framework for Shariah-based Banks in Bangladesh
Financial Statements of Shariah-based Banks
Key Differences in Financial Statements:
Key Differences between Shariah-based and Conventional Banking Products
Other Relevant Considerations for Shariah-based Banks
Actual Financial Statements of Conventional Banks (Eastern Bank PLC)
Actual Financial Statements of Shariah-based Banks (Islami Bank Bangladesh PLC)
Short Questions

Introduction:

Financial statements serve as the cornerstone for evaluating the financial health, performance, and risk exposure of banks. In Bangladesh, the financial statements of banks are governed by a strict regulatory framework, ensuring accuracy, transparency, and comparability. These statements provide vital information to a wide array of users, including regulators, investors, analysts, and financial institutions, enabling them to make informed decisions.

In line with the global movement toward enhanced transparency in the banking sector, **BRPD Circular No. 14**, issued by Bangladesh Bank on **25 June 2003**, introduced key amendments to the forms and directives for preparing financial statements under the **Bank Companies Act, 1991**. The circular aimed to improve the level of disclosure in financial statements, providing users with a more comprehensive and transparent view of a bank's financial position, performance, and risk profile.

This chapter delves into the structure, contents, and importance of financial statements for banks in Bangladesh, highlighting the regulatory framework, key components, and types of disclosures required for expert users.

Types of Financial Statements for Banks:

Banks in Bangladesh are required to prepare several key financial statements, each serving a unique purpose in assessing a bank's financial position and performance. The following are the core financial statements:

1. **Balance Sheet:** The balance sheet provides a snapshot of a bank's financial position at a specific point in time. It outlines the bank's assets, liabilities, and shareholders' equity, showing how resources are financed through debt or equity.
2. **Profit and Loss Account (Income Statement):** The profit and loss account summarizes the bank's revenues, expenses, and profits over a particular period. It helps evaluate the bank's operational efficiency and profitability.
3. **Cash Flow Statement:** This statement highlights the inflows and outflows of cash during the period, categorized into operating, investing, and financing activities. It is crucial for understanding the bank's liquidity and cash management.
4. **Statement of Changes in Equity:** This statement outlines changes in shareholders' equity during the period, including new capital raised, profits retained, dividends paid, and changes due to revaluation of assets or investments.

5. **Liquidity Statement (Asset-Liability Maturity Analysis):** The liquidity statement provides an analysis of the maturity structure of assets and liabilities, allowing users to assess the bank's ability to meet short-term obligations.

Key Components of Bank Financial Statements:

1. Balance Sheet:

The balance sheet of a bank provides critical insights into its financial structure by detailing its assets, liabilities, and equity components.

- **Assets**:
  - **Cash**: Includes cash in hand, balances with Bangladesh Bank, and balances with other financial institutions.
  - **Investments**: Investments in government securities, corporate bonds, and other financial instruments.
  - **Loans and Advances**: Loans extended to customers, including cash credit, overdrafts, and bills purchased and discounted.
  - **Fixed Assets**: Premises, furniture, and fixtures used by the bank for its operations.
  - **Other Assets**: Includes prepayments, accrued income, and any non-banking assets acquired.

- **Liabilities**:
  - **Deposits**: The main source of funding for banks, including current accounts, savings deposits, and fixed deposits.
  - **Borrowings**: Loans from other banks, financial institutions, and the central bank.
  - **Other Liabilities**: Provisions for loan losses, interest payable, and any contingent liabilities.

- **Shareholders' Equity**:
  - **Paid-up Capital**: Capital contributed by the shareholders.
  - **Reserves**: Statutory reserves and retained earnings.

- **Surplus in Profit and Loss Account**: Reflects the net earnings retained in the business after dividend distribution.

2. Profit and Loss Account (Income Statement):

The profit and loss account reveals a bank's financial performance over a specified period by summarizing its revenues and expenses.

- **Income**:
    - **Interest Income**: The primary source of income, earned from loans and advances.
    - **Investment Income**: Earnings from government securities and other investments.
    - **Commission, Exchange, and Brokerage**: Revenue from services provided to customers.
    - **Other Operating Income**: Miscellaneous income, such as fees for various banking services.
- **Expenses**:
    - **Interest Expense**: The cost of funds borrowed from depositors and other financial institutions.
    - **Operating Expenses**: Includes salaries, rent, utilities, legal fees, and depreciation of assets.
    - **Provisions for Loan Losses**: Amounts set aside to cover potential loan defaults.

3. Cash Flow Statement:

The cash flow statement helps stakeholders understand how the bank generates and uses cash in its operations. It is divided into three main categories:

- **Operating Activities**: Cash flows related to the bank's core business activities, such as lending, deposits, and interest payments.
- **Investing Activities**: Cash flows from the purchase and sale of securities, property, and equipment.
- **Financing Activities**: Cash flows related to raising capital, borrowing, and dividend payments.

4. Statement of Changes in Equity:

This statement tracks changes in equity during the period. It includes:

- New share capital raised.
- Dividends paid to shareholders.
- Retained earnings from profits.
- Revaluation of assets.

5. Liquidity Statement (Asset-Liability Maturity Analysis):

The liquidity statement is essential for assessing the bank's ability to meet short-term obligations. It analyzes assets and liabilities based on their maturity:

- **Assets**: Grouped into cash, short-term investments, loans, and other liquid assets.
- **Liabilities**: Grouped into short-term borrowings, deposits, and other liabilities.

Importance of Financial Statements:

For expert users, such as financial analysts, regulators, investors, and auditors, the financial statements of banks offer several key benefits:

1. **Risk Assessment**: Financial statements provide crucial data on a bank's risk exposure, including credit risk, market risk, and operational risk. The disclosure of non-performing loans (NPLs) and provisioning levels is critical for assessing the bank's stability.
2. **Profitability Analysis**: By examining the profit and loss account, users can assess the bank's ability to generate profits from its operations, manage costs, and create shareholder value.
3. **Regulatory Compliance**: Financial statements reflect the bank's adherence to regulatory requirements, including capital adequacy, liquidity ratios, and risk management practices as outlined by Bangladesh Bank and global standards like Basel III.
4. **Stakeholder Transparency**: Detailed financial statements enhance transparency and build confidence among stakeholders, including depositors, investors, and regulators.

5. **Comparability**: Standardized formats for financial statements, as mandated by BRPD Circular No. 14, ensure that users can compare the financial performance of different banks within the same regulatory framework.

Regulatory Framework for Bank Financial Statements:

The preparation of financial statements for banks in Bangladesh is governed by a robust regulatory framework. The key regulatory instruments include:

1. **Bank Companies Act, 1991**: This Act provides the legal foundation for banking operations in Bangladesh. Section 38 of the Act outlines the requirements for preparing and submitting financial statements.
2. **Bangladesh Bank Directives**: Circulars issued by Bangladesh Bank, such as **BRPD Circular No. 14 (2003)**, provide detailed guidelines for preparing financial statements, emphasizing disclosure and transparency.
3. **International Financial Reporting Standards (IFRS)**: Banks in Bangladesh are required to comply with IFRS, which standardizes financial reporting across borders and ensures transparency in financial disclosures.
4. **Basel III Framework**: Basel III guidelines, which focus on capital adequacy, liquidity risk, and leverage ratios, have been adopted in Bangladesh. Banks must disclose their adherence to these standards in their financial statements.

Key Disclosures and Reporting Requirements:

To ensure transparency, the financial statements of banks must provide several key disclosures:

- **Non-Performing Loans (NPLs)**: A detailed breakdown of NPLs and the provisions made to cover potential losses.
- **Contingent Liabilities**: Disclosure of off-balance sheet items, such as guarantees and letters of credit, which may pose risks to the bank.
- **Capital Adequacy**: The bank's capital position, including Tier 1 and Tier 2 capital, risk-weighted assets, and the capital adequacy ratio.
- **Earnings Per Share (EPS)**: Disclosure of EPS for publicly listed banks, allowing investors to assess the bank’s profitability.

The Structure, Contents and Instructions for preparation of financial statements of Banks in Bangladesh are mainly shaped by the BRPD Circular No.14 dated 25 June 2003. The relevant sections of the circular have been reproduced here for the reader.

First Schedule
(Section 38)
Balance Sheet
Form
Balance Sheet
As at .... 20 ……

	Note	Current year (TK)	Previous year (TK)
PROPERTY AND ASSETS			
Cash*:	01		
Cash in hand			
(Including foreign currency)			
Balance with Bangladesh Bank and its agent bank(s)			
(Including foreign currency)			
Balance with other banks and financial institutions	02		
In Bangladesh			
Outside Bangladesh			
Money at call on short notice	03		
Investments:	04		
Government			
Others			
Loans and Advances:	05		
Loans, Cash Credit, Overdrafts etc.			
Bills purchased & discounted	06		
Fixed assets including premises, furniture and fixtures	07		
Other assets	08		
Non-banking assets	09		
Total Assets:			
LIABILITIES AND CAPITAL			
Liabilities:			
Borrowings from other banks, financial institutions and agents	10		
Deposits and other accounts:	11		
Current Accounts and other Accounts			
Bills Payable			
Savings Bank Deposits			
Fixed Deposits			
Bearer Certificates of Deposit			
Other Deposits			
Other liabilities	12		
Total Liabilities:			
Capital/Shareholders' Equity			
Paid up Capital	13		
Statutory Reserve	14		
Other Reserve	15		
Surplus in Profit and Loss A/C	16		
Total Shareholders' Equity**			
Total Liabilities and Shareholders' Equity			

* see Cash Flow Statement
** see Statement of Changes in Equity

OFF-BALANCE SHEET ITEMS

	Note	Current year (TK)	Previous year (TK)
Contingent liabilities: Acceptances & Endorsements Letters of Guarantee Irrevocable Letters of Credit Bills for Collection Other Contingent Liabilities	17		
Total:			
Other commitments: Documentary credits and short term trade-related transactions Forward assets purchased and forward deposits placed Undrawn note issuance and revolving underwriting facilities Undrawn formal standby facilities, credit lines and other commitments			
Total:			
Total Off-Balance Sheet items including contingent liabilities:			

First Schedule
(Section 38)

Profit and Loss Account Form

Profit & Loss Account for the year ended as on ....20 ……

	Note	Current year (TK)	Previous year (TK)
Interest income Interest paid on deposits and borrowings etc.	19 20		
Net interest income Investment income Commission, exchange and brokerage Other operating income	 21 22 23		
Total operating income			
Salary and allowances Rent, taxes, insurance, electricity etc. Legal expenses Postage, stamp, telecommunication etc. Stationery, Printings, Advertisements etc. Chief Executive's salary and fees Directors' fees Auditors' fees Charges on loan losses Depreciation and repair of bank's assets Other expenses	 24		
Total operating expenses			
Profit/Loss before provision Provision for loan Provision for diminution in value of investments Other provisions	 25 26 27		
Total provision			
Total Profit/Loss before taxes			
 Provision for Taxation **Net Profit after Taxation** **Appropriations:** Statutory Reserve General Reserve Dividends etc.	 28		
Retained surplus			
Earning per share (EPS)			

Cash Flow Statement

For the year ended as on …… 20 ……

	Current year (TK)	Previous year (TK)
<u>Cash flows from operating activities</u> Interest receipts in cash Interest payments Dividends receipts Fee and commission receipts in cash Recoveries on loans previously written off Cash payments to employees Cash payments to suppliers Income taxes paid Receipts from other operating activities (item-wise)Payments for other operating activities (item-wise)		
Operating profit before changes in operating assets and liabilities		
<u>Increase/Decrease in operating assets and liabilities</u> Statutory deposits Purchase/sale of trading securities Loans & advances to other banks Loans & advances to customers Other assets (item-wise) Deposits from other banks Deposits from customers Other liabilities account of customers Trading liabilities Other liabilities (item-wise)		
Net cash from operating activities		
<u>Cash flows from investing activities</u> Proceeds from sale of securities Payments for purchase of securities Purchase/sale of property, plant & equipment Purchase/sale of subsidiary		
Net cash from investing activities		
<u>Cash flows from financing activities</u> Receipts from issue of loan capital & debt security Payments for redemption of loan capital & debt securityReceipts from issue of ordinary share Dividends paid		
Net cash from financing activities		
Net increase/decrease in cash **Effects of exchange rate changes on cash and cash-equivalent***		
Cash and cash -equivalents at beginning period		
Cash and cash equivalents at end of period		

*Explanations with detailed information shall have to be furnished regarding the effects of exchange rate changes on cash and cash-equivalents. Cash and cash-equivalents consist of cash with Bangladesh Bank, with its agent bank(s), government securities and deposits with other banks.

STATEMENT OF CHANGES IN EQUITY

For the year ended ……… 20 ………

	Paid-up Capital	Statutory Reserve	General Reserve	Profit and Loss	Total
Balance as at 01 January 20 ….					
Changes in accounting policy Restated balance					
Surplus/deficit on account of revaluation of properties Surplus/deficit on account of revaluation ofinvestments Currency translation differences					
Net gains and losses not recognized in the income statement Net profit for the period Dividends Issue of share capital					
Balance as at 31 December 20 …					

Liquidity Statement
(Asset and Liability Maturity Analysis)
As at ……………. 20 ……….

	upto 01 month	1 - 3 months	3 - 12 months	1 - 5 years	more than 5 years	Total
Assets: Cash in hand Balance with other banks and financial institutions Money at call on short notice Investment Loans and Advances Fixed assets including premises, furnitureand fixtures Other assets Non-banking assets						
Total Assets						
Liabilities: Borrowings from Bangladesh Bank, otherbanks, financial institutions and agents Deposits Other accounts Provision and other liabilities						
Total Liabilities						
Net Liquidity Gap						

Instructions for preparation of financial statements

A. Instructions on Notes to Balance Sheet items

1. Cash:

(a) Local currency and foreign currency amounts in hand should be shown separatelyunder the head Cash in hand.

(b) Balance with Bangladesh Bank and its agent bank(s) will be shown separately inlocal and foreign currency. Statutory deposit with Bangladesh Bank should be shown separately.

2. Balance with other banks and financial institutions:

(a) Balances with other banks and financial institutions should be segregated into twosub-heads viz., (i) In Bangladesh and (ii) Outside Bangladesh and should also state whether in current account or any other form of deposit. In case of foreign currency deposit, currency-wise amount and exchange rate should be mentioned.

(b) The balance with other banks and financial institutions should be analysed as per the remaining maturity grouping.

3. Money at call on short notice:

Bank/financial institution-wise balance should be shown separately.

4. Investments:

a) Investments should be shown under the following heads:

Government Securities

(I) Treasury bill;
(II) National Investment bond;
(III) Bangladesh Bank Bills;
(IV) Government Notes/Bond;
(V) Prizebond;
(VI) Others.

Securities under lien against repurchase agreement should be mentioned separately.

Other Investments

(I) Shares to be classified into preference, ordinary, deferred and other classesof shares showing separately shares fully paid up and party paid up.
(II) Debentures & bond
(III) Other investments
(IV) Gold etc.

b) All investments in shares and securities (both dealing and investment) shouldbe revalued at the year-end. The quoted shares should be valued as per market price in the stock exchange(s) and unquoted shares as per book valueof last audited balance sheet. Provisions should be made for any loss arising from diminution in value of investments. The current and long-time investment securities should be shown separately analysing as per the remaining maturitygrouping.

5. Loans and Advances:

(a) Loans and advances should be shown as per the remaining maturity grouping inthe following order:

Repayable on demand Not more than 3 months

More than 3 months but not more than 1 year

More than 1 year but not more than 5 years

More than 5 years.

(b) The items of loans and advances i.e., loans, Cash credits, Overdrafts should be segregated into two sub-heads viz., (i) within Bangladesh and (ii) outside Bangladesh

(c) The loans and advances should be analysed to disclose any significant concentration such as:-

(i) Advances to allied concerns of directors;
(ii) Advances to Chief Executive and other senior executives;
(iii) Advances to customers' group (number of clients and outstanding amount ofloans and advances each amounting more than 15% of bank's total capital andclassified amount therein and measures taken for recovery of such loan shouldbe mentioned);
(iv) Industry-wise;
(v) Geographical location-wise.

(d) The loans and advances should also be classified into the categories of 'unclassified`, 'sub-standard', 'doubtful' and 'bad/loss' in accordance with Bangladesh Bank directives.

(e) Loans and Advances should also be categorized on the basis of the following particulars:

(i) Loans considered good in respect of which the banking company is fully secured;
(ii) Loans considered good against which the banking company holds no security other than the debtor's personal guarantee;
(iii) Loans considered good secured by the personal undertakings of one or moreparties in addition to the personal guarantee of the debtor;
(iv) Loans adversely classified; provision not maintained thereagainst;
(v) Loans due by directors or officers of the banking company or any of these either separately or jointly with any other persons.
(vi) Loans due from companies or firms in which the directors of the banking company have interests as directors, partners or managing agents or in case of private companies as members;
(vii) Maximum total amount of advance including temporary advance made at anytime during the year to directors or managers or officers of the banking companies or any of them either separately or jointly with any other person;
(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the bankingcompany have interests as directors, partners or managing agents or in the case of private companies as members;
(ix) Due from banking companies; Amount of classified loan on which interest has not been charged, should bementioned as follows:
    a. Decrease/increase in provision, amount of loan written off and amount realised against loan previously written off;
    b. Amount of provision kept against loan classified as 'bad/loss' on the dateof preparing the balance sheet;
    c. Interest creditable to the Interest Suspense a/c;
(x) Cumulative amount of the written off loan and the amount written off during the current year should be shown separately. The amount of written off loanfor which lawsuit has been filed should also be mentioned.

6. <u>Bills purchased and discounted:</u>

(a) Bill discounted and purchased will exclude Government Treasury bills. These billsshould be classified into two sub-heads viz., (i) payable in Bangladesh and (ii) payable outside

Bangladesh.

(b) The bills discounted and purchased should be analysed as per the following remaining maturity grouping:

Payable within 1 month;
Over 1 month but less than 3 months;
Over 3 months but less than 6 months;
6 months or more.

7. <u>Fixed assets including premises, furniture and fixtures</u>:

(a) Premises wholly or partially occupied by the banking company for the purpose ofits business should be shown against "Fixed assets including premises (less accumulated depreciation)". In case of fixed capital expenditure, the original cost, and additions thereto and reductions therefrom during the year should be stated,as also the total depreciation written off or where sums have been written off on account of reduction of capital or revaluation of assets. Every balance sheet afterthe first balance sheet subsequent to the reduction or revaluation should show the reduced figures with the date and amount of the reduction made. Furniture &fixture and other assets, terms of which have been completed and value writtenoff, need not be shown in the balance sheet. However, if serviceability of such asset remains, its market value may be mentioned in the notes. Explanation for thebases of asset valuation and outcome of depreciation should be mentioned in details.

(b) A statement of the premises not used by the bank for its own or business purposeor the remaining part of the partially used premises and item-wise revenue generated from such assets should be incorporated.

8. <u>Other assets:</u>

(a) Other assets should be classified under the following categories:

(i) Investment in shares of subsidiary companies (In Bangladesh and outside Bangladesh);
(ii) Stationery, stamps, printing materials in stock etc.;
(iii) Advance rent and advertisement;
(iv) Interest accrued on investment but not collected, commission and brokerage receivable on shares and debentures and other income receivable;
(v) Security deposit;
(vi) Preliminary, formation and organization expenses, renovation/development expenses and prepaid expenses;
(vii) Branch adjustment;
(viii) Suspense Account;
(ix) Silver;
(x) Others.

(b) Other assets should be classified as per instruction of Bangladesh Bank andshown accordingly.

(c) Non-income-generating other assets item(s) should be shown separately.

9. <u>Non-banking assets:</u>

These represent assets acquired in satisfaction of claims. Its holding period should be separately mentioned. Value shown shall not exceed the market value. Non-income-generating non-banking item(s) should be shown separately.

10. <u>Borrowings from other banks, financial institutions and agents:</u>

These should be segregated into

(a) (i) In Bangladesh, and (ii) Outside Bangladesh;
(b) (i) Secured (stating the nature of securities) and (ii) Unsecured borrowing.
(c) (i) Repayable on demand (ii) Others (based on agreed maturity dates and periodsof notice).

11. <u>Deposits and other accounts</u>:

The deposits should be analysed in terms of the following remaining maturity grouping showing separately other deposits and inter-bank deposits:

Repayable on demand;
Repayable within 1 month;
Over 1 month but within 6 months;
Over 6 months but within 1 year;
Over 1 year but within 5 years;
Over 5 years but within 10 years;
Unclaimed deposits for 10 years or more held by the bank should be shown separately.

12. <u>Other liabilities;</u>

Under this heading may be included such items as the following: Accumulated provision for loans and advances including bad debts, other provision, cumulative balance of interest suspense account, pension and insurance funds, unclaimed dividends, advance payments and unexplored discounts, liabilities to subsidiary companies, provision for taxation and any other liabilities.

a) <u>Provision for loans and advances:</u>
The provision account includes provision for adversely classified loan and general provision for unclassified loan.

The note on movement in specific provision for bad and doubtful debtsshould be presented in the following format:

Particulars		Taka
Provisions held at the beginning of the year		
Fully provided debt written off	(-)	
Recoveries of amounts previously written off	(+)	
Specific Provision for the year	(+)	
Recoveries and provisions no longer required	(-)	
Net Charge to Profit & Loss A/C	(+)	
Provisions held at the end of the year		

(i) The movement in general provision on unclassified loans should alsobe presented separately.

b) <u>Interest Suspense Account:</u>

This should be shown according to the following format:

Particulars		Taka
Balance at the beginning of the year		
Amount transferred to "Interest Suspense" Account during the year	(+)	
Amount recovered in "Interest Suspense" Account during the year	(-)	
Amount written off during the year	(-)	
Balance at the end of the year		

Note: Interest Suspense means unrealised interest charged on classified loans and advances.

13. Paid up Capital:

(a) The notes on paid up capital should disclose the following:

i) The various classes of capital, if any, should be distinguished. Shares issued as fully paid up pursuant to any contract without payments in cash should be stated separately.

ii) Where circumstances permit, issued and subscribed capital and amount called up may be shown as one item e.g. Issued and Subscribed Capital ………...Shares of Tk paid-up.

iii) In case of banking companies incorporated outside Bangladesh, the amount of deposit kept with the Bangladesh Bank under sub-section (3) of section 13of the Bank Companies Act, 1991 should be shown under this head.

(b) Capital surplus/deficit should be mentioned in the note segregating the core capitaland supplementary capital as per Bangladesh Bank directives relating to the capital adequacy.

14. Statutory Reserve:

(Under section 24 of Bank Companies Act, 1991)

Movement should be shown separately.

15. Other Reserve:

(a) Movement in each of the reserve account should be shown separately.

(b) Any capital reserve and revaluation reserve should be disclosed separately.

16. Surplus in Profit and Loss A/C:

Increase/decrease should be shown clearly.

17. Contingent liabilities:

a) These should be explained in the following manner:

Claims lodged with the bank company, which is not recognized as loan;

Money for which the bank is contingently liable in respect of guarantee issued favouring:

- Directors
- Government
- Bank and other financial institutions
- Others.

b) Commitments should be segregated as follows:

i) Documentary credits and short term trade related transactions;

ii) Forward asset purchased and forward deposits placed;

iii) Undrawn formal standby facilities, credit lines and commitments to lend:

-Under one year

-One year and over;

iv) Spot and forward foreign exchange rate contracts;

v) Other exchange contracts.

N.B. Explanations for the liabilities not shown in books and provisions kept thereagainst should be disclosed in notes.

18. <u>Instructions on Notes to Profit and Loss Account items</u>:

The disclosures in the Profit and Loss Account should include, but are not limited to, the following items of income and expenditure:

<u>Income:</u>

Interest, discount and similar income
Dividend income
Fee, commission and brokerage
Gains *<u>less</u>* Losses arising from dealing securities
Gains *<u>less</u>* Losses arising from investment securities
Gains *<u>less</u>* Losses arising from dealing in foreign currencies
Income from non-banking assets
Other operating income
Profit *<u>less</u>* Losses on interest rate changes.

<u>Expenses:</u>

Interest, fee and commission
Losses on loans and advances
Administrative expenses
Other operating expenses
Depreciation on banking assets.

19. <u>Interest income</u>:

The major sources of interest income as arising from loans and advances to customers, balances with other banks or financial institutions, accounts with foreign banks, etc. should be disclosed.

20. <u>Interest paid on deposits and borrowings etc:</u>

This may be shown under the heads as attributable to interest on deposits, interest on borrowings, interest on foreign bank accounts etc.

21. <u>Investment income</u>:

This will consist of sub-heads on interest on or profit from Bills, Treasury Bills, Notes,Bonds, Shares, Debentures etc.

22. <u>Commission, exchange and brokerage:</u>

Commission, exchange and brokerage should be shown separately.

23. <u>Other operating income</u>:

Other operating income should be disclosed item wise.

24. <u>Directors' fees:</u>

It should include:

a) Total fees paid for attending board meeting (rate of fee should be mentioned);
b) Other financial benefits [other financial benefits extended to the directors as per section 18(1) of the Bank Companies Act, 1991 excluding fees].

25. <u>Provision for loan:</u>

This will consist of the following:

(a) Provision for adversely classified loans and advances as per Bangladesh Bank directives.
(b) Provision for unclassified loans and advances.

26. Provision for diminution in value of investments:

Decline in value of investment should consist of the following divisions:

(a) Dealing securities
- Quoted
- Unquoted;

(b) Investment securities
- Quoted
- Unquoted.

27. Other provisions:

Provision kept against classified other-assets etc., should be stated.

28. Appropriations:

For the banks incorporated outside Bangladesh, policy in force for appropriation of profit should be followed and appropriations should be mentioned accordingly.

B. General Instructions:

1. These instructions for disclosure of financial statements shall apply to all bankcompanies and other financial institutions working in Bangladesh. The statements shallcomprise of balance sheet, profit and loss account, cash flow statement, statement ofchanges in equity, liquidity statement and other explanatory notes.

2. Financial statements should include clear and concise disclosure of all significant aspects of accounting principles and procedures, which have been followed. The disclosure of all the significant accounting principles adopted shall be an integral part ofthe financial statements. The principles should normally be disclosed in one place. The principles should state the accounting conventions, bases of accounting and otherprinciples adopted for determination of interest income and expenses, valuation ofinvestment and dealing securities, segregation of balance sheet and off-balance sheetitems, bad and doubtful debts, capital, foreign currencies, tangible fixed assets etc. The basis for determination of items relating to charges derived from general banking risksand the accounting treatment of such charges should be disclosed.

3. The notes to the financial statements shall provide relevant details of the items includedin balance sheet, profit and loss account, cash flow statement, liquidity statement andstatement of changes in equity, so that adequate disclosures are made for clear understanding of the users. The liquidity statement should be prepared according to theremaining maturity grouping.

4. The value of any asset or liability as shown in the balance sheet should not be off-set byway of deductions from another liability or asset unless there exists a legal right thereof.

5. The market prices of dealing securities and marketable investment securities should be disclosed if these are different from those shown in the financial statements.

6. The unrealised interest of loans classified as sub-standard, doubtful and bad/loss should not be included in the income; amount thereof should be mentioned in the notes.

7. The financial statements should disclose the details of the contingent liabilities and commitments. The statements should disclose the following items/events till the date onwhich the statements are prepared:

(a) the nature and amount of commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk ofincurring significant penalty or expenses; and

(b) the nature and amount of contingencies and commitments arising from off-balancesheet items including those relating to:

   (i) direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;
   (ii) certain transaction related contingencies including performance bonds, bidbonds, warranties and standby letters of credit related to particular transactions;
   (iii) short-term self-liquidating trade related contingencies arising from the movement of goods, such as documentary credits where the underlying shipment is used as security;
   (iv) those sale and repurchase agreements not recognized in the balance sheet;
   (v) interest and foreign exchange rate related items including swaps, options,futures etc.;
   (vi) other commitments viz., note issuance facilities and revolving underwriting facilities.

8. (a) Any significant concentration of assets, liabilities or off-balance sheet items or suchitems that might have significant influence on the state of affairs of the bank should bedisclosed in the notes of the relevant items. Such disclosure should be made in terms ofgeographical areas, customer or industry-groups etc.

   (b) The net amount of foreign currency exposures should be disclosed.

9. The aggregate amount of secured liabilities and the nature and carried amount of theassets pledged as security, should be disclosed by way of notes.

10. A bank whose ordinary shares are publicly traded should present Earning Per Share (EPS) on the face of Profit and Loss Account, both in case of profit or loss per share.The bank should make a disclosure by way of note to the financial statements of the calculation of Earning Per Share in accordance with IAS-33.

11.

(a) The financial statements should disclose the relationship and transactions between the bank and its related parties till the date on which the statements are prepared. A related party transaction is built on the ability of one party to control orsignificantly influence the other party either directly or indirectly. Parties may be related if they are under common control or influence. It is necessary to look at the substance of the relationship and not merely the legal form thereof. Even if there isno controlling relationship, the parties may still be related as long as there is at least significant influence of one on another. Significant influence can be attained by representation on the board of directors, participation in the policy making decisions, material inter-company transactions, inter-change of managerial personnel, dependence on technical information etc. A bank may advance a largesum or charge lower interest rates to a related party what is not usually done in case of a party not equally related. Despite the origination of related party transactions in the ordinary course of a bank's business, disclosure of informationabout such transactions is relevant for the sake of transparency. The spouse, parents, children, brother and sister of the bank directors and dependants of the directors would generally be included in the related party.

(b) The following disclosures are mandatory:

   (i) Names of the Directors together with a list of entities in which they have interests;
   (ii) All contracts of significance to which the bank, its subsidiary or any fellow subsidiary company was a party and wherein a director has interests subsisted at any time during the year or at the end of the year;
   (iii) Share options given to directors and executives to acquire shares at 'nil' consideration or restricted share plan exercisable at a discount.
   (iv) The nature of the related party relationship, the types of transactions andthe elements of transactions;
   (v) The lending policy to related parties shall be disclosed and in respect of

related party transactions, the amount should include:

(a) each of loans and advances, deposits and guarantees andcommitments; disclosures may include the aggregate amounts outstanding at the beginning and end of the period, as well as changesduring the period;

(b) each of the principal items of deposit, expense and commission;

(c) the amount of the provision against loans and advances;

(d) irrevocable commitments and contingencies and commitment arisingfrom other off-balance sheet items;

(vi) Full disclosure of balances at the balance sheet date resulting from transactions with directors and their related concerns shall be made together with an analysis as to the classified and unclassified advances, provision, if any, for possible losses on classified loans and advances, value of the securities held etc., and the amount of the loans, adversely classified, of the concerns of persons who were bank directors at the timethe loans were extended. If such loans were written off or waived that should also be mentioned;

(vii) Detailed information of any business (like receiving/extending services, purchase/sale of properties, renting etc.) other than the banking business with any related concerns of the directors as per section 18(2) of the Bank Companies Act should be provided;

(viii) Detailed information of the amount invested along with a list, in the securities (both dealing and investment) of the directors and their relatedconcerns.

12. Names of the members of the audit committee formed by the board of directors of thebank and their qualifications should be disclosed. Confirmation as to the number of meetings of the audit committee held with the bank's senior management to considerand review the bank's financial statements, the nature and scope of audit reviews andthe effectiveness of the system of internal control and compliance thereof should be made.

13. The income items should be treated as income when there exists no risk or uncertaintyregarding its realization.

14. Explanation regarding tax determination, provision thereagainst and approved expenditure in relation to it should be provided.

15. Detailed explanation about the procedure of conversion into local currency of the transactions made in foreign currency; income-expenditure in such business, impact (item-wise) of taxation on difference in exchange rate on assets and liabilities and impact of difference in exchange rate on taxation etc. should be given.

16. Reconciliation of books of accounts in regard to inter-bank (in Bangladesh and outside Bangladesh) and inter-branch transactions and adequate explanations in case of non-reconciliation should be provided.

17. Detailed information should be given regarding financing and management of the fundraised for staff pension considering it as a separate entity.

18. The external auditors must audit at least 80% of the risk-weighted assets of the bank before signing on the balance sheet and the person-hours they have spent forconducting the audit should be mentioned.

19. Figures should be rounded off to nearest Taka.

20. Highlights of the bank should be presented in the annual report as under:

Highlights

SI No	Particulars	Present Year	Previous Year
1.	Paid up Capital		

2.	Total Capital		
3.	Capital surplus/deficit		
4.	Total Assets		
5.	Total Deposits		
6.	Total Loans and Advances		
7.	Total Contingent Liabilities and Commitments		
8.	Credit Deposit Ratio		
9.	Percentage of classified loans against total loans and advances		
10.	Profit after tax and provision		
11.	Amount of classified loans during current year		
12.	Provisions kept against classified loan		
13.	Provision surplus/deficit		
14.	Cost of fund		
15.	Interest earning Assets		
16.	Non-interest earning Assets		
17.	Return on Investment (ROI)		
18.	Return on Asset (ROA)		
19.	Incomes from Investment		
20. 21.	Earning per Share Net income per Share		
22.	Price Earning Ratio		

21. Copies of financial statements including the Balance Sheet should be preserved in eachof the bank branches, so that the customers of the bank may readily use those on request. Besides, the Highlights *(see general instruction no.20)* and Balance Sheet should be affixed in a visible place of each bank branch.

22. The financial statements should be published in widely circulated one Bangla and oneEnglish daily newspapers within one week of submission of the statements to Bangladesh Bank so that the stakeholders of the bank including its depositors, shareholders and regulatory bodies can get information about the bank easily. Theseshould also be disclosed in the bank's website.

Financial Statements of Shariah-based Banks in Bangladesh: Key Aspects, Regulations, and Comparisons

Shariah-based banks in Bangladesh follow Islamic principles, which prohibit interest (riba) and promote ethical investment. These banks have been a significant part of the financial landscape, offering products and services that comply with Shariah law, creating an alternative to conventional banking. This paper will explore the financial statements of Shariah-based banks, relevant regulatory frameworks, key differences between conventional and Islamic banks, and the nuances of Islamic financial products.

Regulatory Framework for Shariah-based Banks in Bangladesh

Shariah-based banks operate under the guidelines of Bangladesh Bank, the central bank of Bangladesh, and must comply with the country's banking regulations. However, these banks also have to follow the additional Shariah principles and directives issued by their Shariah boards. These boards are typically composed of scholars with expertise in Islamic jurisprudence and finance.

Key Regulatory Bodies and Guidelines:

- **Bangladesh Bank (BB):** The central bank of Bangladesh provides general banking regulations for all financial institutions. Shariah-based banks must adhere to BB's directives on capital adequacy, reporting standards, and risk management, while ensuring these do not conflict with Islamic principles.
- **Shariah Supervisory Boards (SSBs):** Each Islamic bank has its own SSB, which ensures the bank's operations and financial products comply with Shariah law. This includes approving contracts and transactions to avoid riba (interest) and gharar (excessive uncertainty).

Bangladesh has issued several regulations concerning Islamic banking, such as guidelines for profit-sharing accounts, modes of financing, and detailed reporting of Shariah compliance. Some of the key laws and regulations applicable to Shariah-based banks include:

- **Bank Companies Act, 1991**: This law governs all banks in Bangladesh, including Islamic banks.
- **Islamic Banking Guidelines (2009)**: Issued by Bangladesh Bank, these guidelines provide the framework for the operation of Islamic banks, including reporting and compliance mechanisms.
- **Basel III Requirements**: Shariah-based banks, like conventional banks, are required to meet Basel III capital adequacy and liquidity standards, but they need to ensure compliance with Shariah law while implementing these.

Financial Statements of Shariah-based Banks

Shariah-based banks produce financial statements in a manner similar to conventional banks but with several differences in terminology, content, and reporting principles to align with Islamic finance. The key financial statements include the Balance Sheet, Income Statement, Cash Flow Statement, and Statement of Changes in Equity.

Key Differences in Financial Statements:

1. **Income Statement (Profit and Loss Account):**
    - **Islamic Banks:** The major difference lies in the absence of interest income. Instead, Islamic banks report income derived from profit-sharing agreements such as **Mudarabah** (profit-sharing), **Musharakah** (joint venture), **Ijarah** (leasing), and **Murabaha** (cost-plus financing). The income is reported as "Profit from Islamic Banking Activities" rather than "Interest Income."
    - **Conventional Banks:** Conventional banks report "Interest Income" as their primary revenue source from loans and advances. Interest expense is also reported as a key component of cost.
2. **Balance Sheet (Statement of Financial Position):**
    - **Islamic Banks:** The assets and liabilities of Islamic banks differ significantly from those of conventional banks. Islamic banks hold financing assets such as **Ijara receivables** (leased assets), **Murabaha receivables**, and **Mudarabah investments**, while conventional banks hold loan assets that generate interest.
    - **Liabilities:** In Islamic banks, savings and investment accounts are often based on profit-and-loss sharing principles, such as Mudarabah. These are reported differently from conventional deposits where interest is paid.
3. **Equity and Reserves:**
    - Shariah-based banks often maintain **investment risk reserves** and **profit equalization reserves**, which are designed to absorb potential losses from investments and ensure stability in profit distribution to depositors. These reserves are generally absent in conventional banks.
4. **Cash Flow Statement:**
    - The cash flow of Islamic banks emphasizes non-interest-based cash inflows and outflows. Financing activities may include transactions such as leasing (Ijarah), cost-plus sales (Murabaha), or profit-sharing agreements. These differ from conventional bank cash flow statements, which predominantly reflect interest-based lending and borrowing.

5. **Disclosure and Compliance Statements:**
    - Islamic banks typically include a separate **Shariah Compliance Statement**, endorsed by the Shariah Supervisory Board, certifying that the bank's operations comply with Islamic principles. This statement is unique to Shariah-based institutions and is not found in conventional banks.

Key Differences between Shariah-based and Conventional Banking Products

The primary difference between Islamic and conventional banks lies in the concept of **interest** versus **profit**. In Islamic finance, earning interest (riba) is strictly forbidden, and as such, Islamic banks use alternative profit-generating mechanisms.

Financing Products:

- **Islamic Banks:**
    - **Murabaha (Cost-Plus Financing):** The bank purchases an asset and sells it to the customer at a marked-up price. The profit margin is agreed upon upfront, and there is no interest involved.
    - **Ijara (Leasing):** Islamic banks lease an asset to a customer for a specified period. Ownership remains with the bank, and the customer pays a rental fee, which serves as the bank's return on the asset.
    - **Mudarabah (Profit-sharing):** An agreement between a bank and a customer where the bank provides capital, and the customer manages the business. Profits are shared according to a pre-agreed ratio, but any financial loss is borne by the bank.

- **Conventional Banks:**
    - **Interest-based Loans:** Conventional banks provide loans where the bank charges a fixed or variable interest rate on the principal amount. This interest income forms the bulk of a conventional bank's earnings.

Deposit Products:

- **Islamic Banks:**

    - **Mudarabah Savings Accounts:** Islamic banks offer savings accounts based on the Mudarabah principle, where depositors act as capital providers. The bank invests these funds, and the profits are shared between the bank and depositors. There is no guaranteed return, unlike interest in conventional banks.

- **Conventional Banks:**
    - **Fixed Deposit Accounts:** Conventional banks pay depositors a pre-agreed interest rate on their deposits, regardless of the bank's performance or profits. The interest is fixed and is a liability for the bank.

Interest vs. Profit

In conventional banking, interest is a predetermined and fixed amount paid on loans and deposits. This fixed return is not dependent on the performance of the bank or its investments.

In contrast, Islamic banking replaces interest with **profit-sharing** mechanisms. Returns in Islamic finance are linked to the bank's actual profits and are not guaranteed. For instance, in **Mudarabah**, the depositor and the bank share profits based on a pre-agreed ratio, while the bank bears any financial losses.

Other Relevant Considerations for Shariah-based Banks

Shariah-based banks face unique challenges in terms of compliance, risk management, and customer education. These banks must ensure strict adherence to Shariah principles, which involves continuous supervision by the Shariah Board. They also need to communicate effectively with customers to explain the differences between Islamic and conventional financial products.

Key Challenges:

- **Liquidity Management:** Islamic banks have limited instruments for liquidity management, as many conventional tools involve interest. Islamic banks typically rely on Shariah-compliant instruments like **Sukuk** (Islamic bonds) for liquidity management.
- **Shariah Compliance Costs:** Ensuring compliance with Islamic principles often requires additional layers of review and approval, which can increase operational costs.

The financial statements of Shariah-based banks in Bangladesh reflect their commitment to Islamic principles, distinguishing them from conventional banks in terms of terminology, product structure, and profit distribution mechanisms. While these banks operate within the same regulatory framework as conventional banks, they must also navigate the complexities of Shariah compliance. As Islamic banking continues to grow in Bangladesh, understanding these differences becomes increasingly important for both regulators and market participants.

Actual Financial Statements of Conventional Banks (Eastern Bank PLC)

Eastern Bank PLC.

Balance Sheet

as at 31 December 2023

Amount in BDT

Particulars	Notes	2023	2022
PROPERTY AND ASSETS			
Cash	3		
Cash in hand (including foreign currencies)	3.1	5,558,469,189	4,716,619,787
Balances with Bangladesh Bank and its agent bank(s) (including foreign currencies)	3.2	15,381,788,929	16,438,906,912
		20,940,258,118	**21,155,526,699**
Balances with other banks and financial institutions	4		
In Bangladesh	4.1	4,658,363,659	4,471,348,086
Outside Bangladesh	4.2	13,394,935,677	7,382,719,034
		18,053,299,336	**11,854,067,120**
Money at call and on short notice	5	3,100,000,000	6,440,000,000
Investments	6		
Government	6.1	70,339,401,798	64,603,877,534
Others	6.2	23,683,427,773	25,802,844,879
		94,022,829,570	**90,406,722,413**
Loans and advances	7		
Loans, cash credits, overdraft etc.	7.1	319,911,853,079	263,817,658,813
Bills purchased and discounted	7.2	33,445,079,214	45,097,944,098
		353,356,932,292	**308,915,602,911**
Fixed assets including land, building, furniture and fixtures	8	8,517,304,302	8,500,798,763
Other assets	9	10,563,437,836	8,716,424,628
Non banking assets	10	-	-
TOTAL ASSETS		**508,554,061,455**	**455,989,142,516**
LIABILITIES AND CAPITAL			
LIABILITIES			
Borrowing from banks, financial institutions and agents	11		
Non-convertible subordinated bond	11.1.a	7,020,000,000	5,950,000,000
Borrowing from other Banks, FIs, Agents etc.		64,647,842,383	70,046,357,312
		71,667,842,383	**75,996,357,312**
Deposits and other accounts	12		
Current deposits & other accounts etc.	12.1	62,260,915,018	69,608,497,830
Bills payable	12.2	2,198,324,105	1,073,551,209
Savings bank deposits	12.3	80,525,188,456	75,127,325,690
Fixed deposits	12.4	169,066,601,996	130,692,561,410
Special notice deposits (SND)		52,052,696,112	60,595,389,174
Bearer certificates of deposits		-	-
		366,103,725,686	**317,097,305,113**
Other liabilities	13	31,015,047,378	27,850,035,594
TOTAL LIABILITIES		**468,786,615,447**	**420,943,698,018**
SHAREHOLDERS' EQUITY			
Paid-up capital	14	12,072,367,150	10,730,975,250
Statutory reserve	15	12,072,367,150	10,730,975,250
Dividend equalisation reserve	16	356,040,000	356,040,000
Assets revaluation reserve (Land & others)	17	2,517,409,769	2,650,425,416
General reserve		603,493,370	603,493,370
Actuarial remeasurement gain/(loss)	18	(226,424,063)	(367,924,063)
Foreign currency translation gain/(loss)	19	(229,117,864)	(164,282,960)
Surplus in profit and loss account	20	12,601,350,495	10,505,762,233
TOTAL SHAREHOLDERS' EQUITY		**39,767,446,008**	**35,045,444,498**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**508,554,061,455**	**455,989,142,516**

Eastern Bank PLC.

Balance Sheet

as at 31 December 2023

Amount in BDT

Particulars	Notes	2023	2022
OFF-BALANCE SHEET ITEMS			
Contingent liabilities	21		
Acceptances and endorsements	21.1	65,894,652,512	61,495,322,122
Letters of guarantee	21.2	60,601,051,774	44,488,068,707
Irrevocable letters of credit	21.3	53,626,364,704	41,911,963,642
Bills for collection	21.4	17,713,324,276	15,298,846,071
Others		-	-
		197,835,393,266	**163,194,200,541**
Other commitments			
Documentary credits and short term trade-related transactions		-	-
Forward assets purchased and forward deposits placed	21.5	-	501,704,953
Undrawn note issuance and revolving underwriting facilities		-	-
Undrawn formal standby facilities, credit lines and other commitments		1,400,000,000	1,400,000,000
		1,400,000,000	**1,901,704,953**
TOTAL OFF-BALANCE SHEET ITEMS		**199,235,393,266**	**165,095,905,494**
Net asset value (NAV) per share (restated 2022)		**32.94**	**29.03**

These financial statements should be read in conjunction with the annexed notes.

Ali Reza Iftekhar
Managing Director

Ruslan Nasir
Director

Dr. Toufic Ahmad Choudhury
Independent Director

Gazi Md. Shakhawat Hossain
Director

Dhaka,
10 March 2024

Signed as per our annexed report of same date
Howladar Yunus & Co.
Chartered Accountants

Farhana Sultana FCA
Partner
Enrollment No: 1619
Dated: 14 March 2024
DVC No: 2403141619AS439604

Eastern Bank PLC.

Profit and Loss Account

for the year ended 31 December 2023

Amount in BDT

Particulars	Notes	2023	2022
Interest income	22	26,561,023,589	19,568,667,364
Interest paid on deposits and borrowings	23	(18,393,069,649)	(12,869,384,368)
Net interest income		**8,147,953,960**	**6,699,282,996**
Income from investments	24	7,681,670,127	6,705,661,835
Fees, commission and brokerage	25	4,398,907,312	4,092,875,070
Other operating income	26	299,297,933	291,798,090
		12,379,875,372	**11,090,334,995**
Total operating income		**20,527,829,312**	**17,789,617,991**
Salary & allowances (excluding those of MD)	27	5,338,867,697	4,844,110,054
Rent, taxes, insurance, utilities etc.	28	522,355,361	483,906,897
Legal & professional expenses	29	128,013,458	129,780,179
Postage, stamp, telecommunication etc.	30	213,685,248	167,225,129
Stationery, printing, advertisement, business promotion etc.	31	553,861,898	290,154,386
Managing Director's salary and allowances	32	31,987,131	30,470,876
Directors' fees & expenses	33	3,458,296	3,596,810
Audit fees	34	1,653,900	1,308,178
Repairs, maintenance and depreciation	35	1,391,065,367	1,190,279,987
Other operating expenses	36	892,369,393	603,007,062
Total operating expenses		**9,077,297,748**	**7,743,845,559**
Profit before provisions		**11,450,531,564**	**10,045,572,432**
Provision for loans and off-balance sheet exposures	13.4.1		
Specific provision (net off w/off recovery)		491,625,604	1,278,437,655
General provision for loans		1,066,920,650	344,986,171
Special general provision for COVID-19		(161,095,270)	(225,086,025)
General provision for off-balance sheet exposures		52,029,675	119,471,033
		1,449,280,659	**1,517,808,834**
Other provision	37	212,322,556	432,378,729
Total provisions		**1,661,603,215**	**1,950,187,563**
Profit before tax for the year		**9,788,928,348**	**8,095,384,868**
Current tax expense for the year	13.3.1	4,337,020,911	3,033,354,808
Deferred tax income (net)	38	(657,293,006)	(45,427,604)
Total provision for taxation		**3,679,727,905**	**2,987,927,205**
Profit after tax for the year		**6,109,200,443**	**5,107,457,663**
Appropriation			
Statutory reserve	15	(1,341,371,900)	(1,192,330,580)
General reserve		-	-
		(1,341,371,900)	**(1,192,330,580)**
Retained earnings carried forward		**4,767,828,543**	**3,915,127,083**
Earnings per share (EPS) (restated 2022)	39	**5.06**	**4.23**

These financial statements should be read in conjunction with the annexed notes.

Ali Reza Iftekhar
Managing Director

Ruslan Nasir
Director

Dr. Toufic Ahmad Choudhury
Independent Director

Gazi Md. Shakhawat Hossain
Director

Dhaka,
10 March 2024

Signed as per our annexed report of same date
Howladar Yunus & Co.
Chartered Accountants

Farhana Sultana FCA
Partner
Enrollment No: 1619
Dated: 14 March 2024
DVC No: 2403141619AS439604

Eastern Bank PLC.

Cash Flow Statement

for the year ended 31 December 2023

Amount in BDT

Particulars	Notes	2023	2022
A) Cash flows from operating activities			
Interest receipts in cash		25,535,468,908	19,167,196,081
Interest payments		(17,355,115,264)	(11,678,207,906)
Dividend receipts		1,321,632,813	1,344,930,389
Fees and commission receipts in cash		4,537,335,517	4,285,733,206
Income from investment (other than dividend)		6,283,463,586	5,235,483,105
Recovery on loans previously written off	13.4.1	473,190,325	793,358,712
Cash payment to employees (including directors)		(5,296,600,515)	(4,876,806,457)
Cash payment to suppliers		(1,885,231,510)	(1,445,831,841)
Income taxes paid		13.3.2	(3,621,730,273)	(4,171,023,059)
Receipts from other operating activities		299,297,933	291,798,090
Payments for other operating activities		(892,369,393)	(603,007,062)
Cash generated from operating profit before changes in operating assets and liabilities		**9,399,362,167**	**8,343,623,257**
Increase/(decrease) in Operating Assets & Liabilities			
Net sale/(purchase) of trading securities		1,506,068,839	(16,765,665,931)
Loans and advances to customers (other than banks)		(63,631,918,567)	(39,135,298,676)
Other assets	40	(1,382,723,839)	(65,185,793)
Deposits/borrowings from other banks		(4,778,778,066)	12,578,551,616
Deposits from customers (other than banks)		67,402,463,669	47,961,862,716
Liability for tax		(57,997,633)	1,183,095,856
Liabilities for provision		(2,134,793,560)	(2,763,546,275)
Other liabilities	41	3,173,430,913	1,019,416,076
Cash generated from changes in operating assets and liabilities		**295,711,798**	**4,053,229,586**
Net Cash received from operating activities		**9,695,053,965**	**12,396,852,843**
B) Cash flows from investing activities			
Net sale/(purchase) of non-trading securities		(5,150,101,588)	(6,775,962,092)
Net sale/(purchase) of property, plant and equipment		(1,033,812,248)	(1,684,131,746)
Investment in Subsidiary-EBL Securities Limited		(250,000,000)	-
Investment in Subsidiary-EBL Investments Limited		(280,000,000)	(100,000,000)
Net cash (used in) investing activities		**(6,713,913,836)**	**(8,560,093,838)**
C) Cash flows from financing activities			
Net issuance/(redemption) of subordinated bond		1,070,000,000	450,000,000
Dividend paid (cash dividend)		(1,341,371,900)	(1,192,330,580)
Net cash (used in)/received from financing activities		**(271,371,900)**	**(742,330,580)**
D) Net increase/(decrease) in cash and cash equivalents (A+B+C)		**2,709,768,209**	**3,094,428,424**
E) Effects of exchange rate changes on cash and cash equivalents		(64,834,475)	(158,333,511)
F) Opening cash and cash equivalents		39,452,285,719	36,516,190,806
G) Closing cash and cash equivalents (D+E+F)*		**42,097,219,454**	**39,452,285,719**
***Cash and cash equivalents consists of:**			
Cash in hand (including foreign currencies)	3.1	5,558,469,189	4,716,619,787
Balances with Bangladesh Bank and its agent bank (s)	3.2	15,381,788,929	16,438,906,912
Balances with other Banks and Financial Institutions	4	18,053,299,336	11,856,067,120
Money at call and on short notice	5	3,100,000,000	6,440,000,000
Prize bonds	6.1	3,662,000	2,691,900
		42,097,219,454	**39,452,285,719**

These financial statements should be read in conjunction with the annexed notes.

Ali Reza Iftekhar	Ruslan Nasir	Dr. Toufic Ahmad Choudhury	Gazi Md. Shakhawat Hossain

Eastern Bank PLC.

Statement of Changes in Equity

for the year ended 31 December 2023

Amount in BDT

Particulars	Paid-up capital	Statutory reserve	Dividend equalization reserve	Assets revaluation reserve (land and other assets)	General reserve	Actuarial remeasurement gain/(loss)	Foreign currency translation gain/(loss)	Retained earnings	Total
Balance as at 1 January 2023	10,730,975,250	10,730,975,250	356,040,000	2,650,425,416	603,493,370	(367,924,063)	(164,282,960)	10,505,742,232	35,045,444,496
Bonus share issued for 2022	1,341,371,900	-	-	-	-	-	-	(1,341,371,900)	-
Cash dividend paid for 2022	-	-	-	-	-	-	-	(1,341,371,900)	(1,341,371,900)
Profit after tax for the year	-	-	-	-	-	-	-	6,109,200,444	6,109,200,444
Transfer to statutory reserve	-	1,341,371,900	-	-	-	-	-	(1,341,371,900)	-
Reserve for revaluation of treasury securities (HFT)	-	-	-	(103,541,272)	-	-	-	-	(103,541,272)
Reserve for amortization of treasury securities (HTM)	-	-	-	74,625,603	-	-	-	-	74,625,603
Adjustment of remeasurement gain/(loss) on defined benefit plans	-	-	-	-	-	141,500,001	-	-	141,500,001
Adjustment on revaluation reserve of land due to sale of land	-	-	-	(104,099,977)	-	-	-	10,523,518	(93,576,459)
Foreign currency translation gain/(loss)	-	-	-	-	-	-	(64,834,904)	-	(64,834,904)
Balance as at 31 December 2023	**12,072,347,150**	**12,072,347,150**	**356,040,000**	**2,517,409,770**	**603,493,370**	**(226,424,062)**	**(229,117,864)**	**12,601,350,495**	**39,767,446,009**
Balance as at 31 December 2022	**10,730,975,250**	**10,730,975,250**	**356,040,000**	**2,650,425,416**	**603,493,370**	**(367,924,063)**	**(164,282,960)**	**10,505,742,232**	**35,045,444,496**

Ali Reza Iftekhar
Managing Director

Ruslan Nasir
Director

Dr. Toufic Ahmad Choudhury
Independent Director

Gazi Md. Shakhawat Hossain
Director

Eastern Bank PLC.

Liquidity Statement

(Asset and Liability Maturity Analysis)

as at 31 December 2023

Amount in BDT

Particulars	Not more than 1 month term	1-3 months term	3-12 months term	1-5 years term	Above 5 years term	Total
Assets						
Cash in hand (including balance with Bangladesh Bank and its agent Bank)	8,881,885,916	-	-	-	12,058,372,202	20,940,258,118
Balances with other banks and financial institutions*	16,043,299,336	1,310,000,000	700,000,000	-	-	18,053,299,336
Money at call and on short notice	3,100,000,000	-	-	-	-	3,100,000,000
Investments	851,601,189	4,085,041,792	23,939,835,399	25,561,904,017	39,584,447,174	94,022,829,570
Loans and advances	42,701,324,979	54,823,615,711	141,718,436,921	84,324,445,258	29,789,109,425	353,356,932,292
Fixed assets including land, building, furniture and fixtures	54,827,601	112,724,058	493,448,408	2,309,778,379	5,446,525,857	8,517,304,302
Other assets	51,020,447	1,264,249	4,005,253,711	3,359,637,041	3,146,262,389	10,563,437,836
Non banking assets	-	-	-	-	-	-
Total assets	**71,683,959,467**	**60,332,445,809**	**170,856,974,438**	**115,635,764,694**	**90,044,717,046**	**508,554,061,455**
Liabilities						
Borrowing from other banks, financial institutions and agents	8,400,248,677	19,545,592,102	35,126,529,854	8,540,794,235	54,677,515	71,667,842,383
Deposits and other accounts	44,191,079,220	68,144,048,354	84,453,728,446	168,046,120,668	1,268,728,979	366,103,725,686
Provisions & other liabilities	100,950,521	4,358,404,505	2,685,569,046	17,273,268,970	6,596,854,335	31,015,047,378
Total liabilities	**52,692,278,418**	**92,048,044,961**	**122,265,827,365**	**193,860,183,873**	**7,920,260,830**	**468,786,615,447**
Net liquidity gap	**18,991,681,049**	**(31,715,419,152)**	**48,591,147,073**	**(78,224,419,179)**	**82,124,456,217**	**39,767,446,008**
Cumulative net liquidity gap	**18,991,681,049**	**(12,723,738,103)**	**35,867,408,970**	**(42,357,010,209)**	**39,767,446,008**	-

Actual Financial Statements of Shariah-based Banks (Islami Bank Bangladesh PLC)

Islami Bank Bangladesh PLC.
Balance Sheet
As at 31 December 2023

Particulars	Notes	31.12.2023 Taka	31.12.2022 Taka
Property and Assets			
Cash in hand	7.0	117,904,723,005	123,504,792,624
Cash in hand (including foreign currency)	7.1	35,241,123,870	30,645,815,136
Balance with Bangladesh Bank & its agent bank(s) (including foreign currency)	7.2	82,663,599,136	92,858,977,487
Balance with other banks & financial institutions	8.0	101,578,824,230	110,787,004,358
In Bangladesh	8.i	84,526,717,667	86,842,245,128
Outside Bangladesh	8.ii	17,052,106,564	23,944,759,230
Placement with banks & other financial institutions	9.0	-	-
Investments in shares & securities	10.0	88,038,373,421	90,454,663,436
Government	10.1	69,158,974,837	72,173,862,507
Others	10.2	18,879,398,584	18,280,800,929
Investments	11.0	1,600,265,662,100	1,461,365,497,513
General investments etc.	11.1	1,415,352,159,015	1,326,643,607,786
Bills purchased & discounted	11.2	184,913,503,084	134,721,889,727
Fixed assets including premises	12.0	15,435,663,200	18,437,320,088
Other assets	13.0	108,309,536,758	33,530,927,106
Non - banking assets		-	-
Total property and assets		2,031,532,782,714	1,838,080,205,126
Liabilities and Capital			
Liabilities			
Placement from banks & other financial institutions	14.0	211,278,924,541	187,438,369,400
Deposits & other accounts	15.0	1,534,566,006,233	1,410,445,429,339
Mudaraba savings deposits	15.1	480,047,894,909	445,565,352,259
Mudaraba term deposits		558,058,288,511	513,310,226,532
Other mudaraba deposits	15.2	286,154,166,380	288,022,176,295
Al- wadeeah current and other deposit accounts	15.3	197,647,421,738	153,259,252,714
Bills payable	15.4	12,658,234,695	10,288,421,539
Mudaraba bond	16.0	31,200,000,000	31,000,000,000
Perpetual bond	16.1	11,000,000,000	11,000,000,000
Redeemable subordinated bond	16.2	20,200,000,000	20,000,000,000
Other liabilities	17.0	181,991,528,355	139,575,739,102
Deferred tax liabilities	18.0	1,203,537,421	1,458,513,201
Total liabilities		1,960,339,996,550	1,769,918,051,042
Capital/ shareholders' equity		71,192,786,164	68,162,154,084
Paid - up capital	19.2	16,099,906,680	16,099,906,680
Statutory reserve	21.0	22,735,466,258	21,735,466,258
Other reserves	22.0	30,747,422,558	28,716,790,478
Retained Earnings	40.0	1,609,990,668	1,609,990,668
Total liabilities & shareholders' equity		2,031,532,782,714	1,838,080,205,126

Islami Bank Bangladesh PLC.
Balance Sheet
As at 31 December 2023

Particulars	Notes	31.12.2023 Taka	31.12.2022 Taka
Off-balance sheet items			
Contingent liabilities			
Acceptances & endorsements		-	-
Letters of guarantee	23.0	26,716,961,910	31,062,266,163
Irrevocable letters of credit (including back to back bills)		152,467,299,618	182,573,222,307
Bills for collection		44,514,902,525	54,371,798,351
Other contingent liabilities		8,174,045	8,174,045
Total		**223,707,338,098**	**268,015,460,865**
Other commitments			
Documentary credits, short term and trade related transactions		-	-
Forward assets purchased and forward deposits placed		-	-
Undrawn note issuance, revolving and underwriting facilities		-	-
Undrawn formal standby facilities, credit lines and other commitments		-	-
Total		-	-
Total off-balance sheet items including contingent liabilities		**223,707,338,098**	**268,015,460,865**

The annexed notes form an integral part of these financial statements.

Director **Director** **Director** **Managing Director & CEO**

This is the balance sheet referred to in our separate report of even date.

Signed for & on behalf of
ACNABIN
Chartered Accountants

Md. Moniruzzaman, FCA
ICAB Enrolment no: 0787
DVC No: 2404240787AS251665

Dhaka; 24 April 2024

Signed for & on behalf of
Khan Wahab Shafique Rahman & Co.
Chartered Accountants

Mohammad Shaheed, FCA, FCMA
ICAB Enrolment no: 1016
DVC No: 2404241016AS734706

Islami Bank Bangladesh PLC.
Profit & Loss Account
For the year ended 31 December 2023

Particulars	Notes	2023 Taka	2022 Taka
Operating income			
Investment income	24.0	105,027,452,635	87,984,257,253
Profit paid on mudaraba deposits	25.0	(65,692,577,714)	(54,077,050,268)
Net investment income		39,334,874,921	33,907,206,985
Income from investments in shares & securities	26.0	4,568,105,509	2,701,469,616
Commission, exchange & brokerage income	27.0	7,528,442,016	9,397,462,838
Other operating income	28.0	8,909,487,926	6,522,977,186
		21,006,035,451	18,621,909,640
Total operating income		60,340,910,372	52,529,116,625
Operating expenses			
Salary & allowances	29.0	22,023,407,478	20,255,126,623
Rent, taxes, insurances, electricity etc.	30.0	2,132,515,530	2,125,157,124
Legal expenses	31.0	7,577,082	8,480,848
Postage, stamps and telecommunication etc.	32.0	137,773,740	130,173,364
Stationery, printing and advertisement etc.	33.0	368,217,563	288,775,659
Chief executive's salary & fees	34.0	18,419,328	18,069,000
Directors' fees & expenses	35.0	6,629,860	3,587,979
Shari'ah supervisory committee's fees & expenses	36.0	1,556,000	1,713,265
Auditors' fees	37.0	3,088,250	3,450,000
Depreciation and repair to bank's assets	38.0	1,743,712,837	1,680,741,446
Zakat expenses	17.8	1,082,913,871	970,998,128
Other expenses	39.0	10,229,510,546	5,777,435,098
Total operating expenses		37,727,342,066	31,281,708,612
Profit/ (loss) before provision		22,613,568,306	21,247,408,013
Provision for investments & off-balance sheet exposures	17.1.4	5,715,676,548	6,384,930,031
Provision for diminution in value of investments in shares	17.2	114,330,599	326,256,888
Other provisions	17.4	281,901,053	(56,700,445)
Total provision		6,111,908,200	6,654,486,474
Total profit/(loss) before taxes		16,501,660,106	14,592,921,537
Provision for taxation for the year		10,387,507,852	8,669,475,910
Current tax	17.7.1	10,571,206,273	8,768,960,631
Deferred tax	18.0	(183,698,421)	(99,484,721)
Net profit/(loss) after tax		6,114,152,254	5,923,445,627
Retained earnings from previous year		1,609,990,668	1,609,990,668
Revaluation reserve of assets/securities transferred to retained earnings		1,530,645,029	30,451,680
Add: Net profit after tax		6,114,152,254	5,923,445,627
Add: Excess depreciation on revalued amount of building transferred from assets revaluation reserve to retained earnings	22.2	80,516,221	85,190,953
Profit available for appropriation		9,335,304,172	7,649,078,928
Appropriation:		9,335,304,172	7,649,078,928
Statutory reserve	21.0	1,000,000,000	1,000,000,000
General reserve	22.1	4,180,381,312	2,502,688,329
Dividend (previous year)		1,609,990,668	1,609,990,668
Start-up Fund	17.10	61,141,523	59,234,456
Coupon/dividend on perpetual bond		873,800,001	867,174,807
Retained earnings	40.0	1,609,990,668	1,609,990,668
Earnings per share (EPS)	42.0	3.80	3.68

The annexed notes form an integral part of these financial statements.

Director | Director | Director | Managing Director & CEO

This is the profit & loss account referred to in our separate report of even date.

Signed for & on behalf of
ACNABIN
Chartered Accountants

Md. Moniruzzaman, FCA
ICAB Enrollment no: 0787
DVC No: 2404240787AS251665

Signed for & on behalf of
Khan Wahab Shafique Rahman & Co.
Chartered Accountants

Muhammad Shaheed, FCA, FCMA
ICAB Enrolment no: 1016
DVC No: 2404241016AS734786

Dhaka; 24 April 2024

Islami Bank Bangladesh PLC.
Cash Flow Statement
For the year ended 31 December 2023

Particulars	Note	2023 Taka	2022 Taka
Cash flows from operating activities			
Investment income		89,027,452,635	77,340,087,647
Profit paid on mudaraba deposits		(65,442,577,714)	(50,558,856,096)
Income/ dividend receipt from investments in shares & securities		4,568,105,509	204,440,149
Fees & commission receipt in cash		7,528,442,016	9,397,462,838
Recovery from written off investments		287,609,592	244,773,412
Payments to employees		(22,041,826,806)	(19,998,248,193)
Cash payments to suppliers		(679,750,727)	(445,477,207)
Income tax paid		(8,484,602,539)	(6,752,481,846)
Receipts from other operating activities		9,581,864,535	7,743,934,108
Payments for other operating activities		(12,470,545,452)	(7,987,245,396)
(I) Operating profit before changes in operating assets and liabilities		**2,074,251,849**	**9,188,388,815**
Changes in operating assets and liabilities			
Increase/(decrease) of statutory deposits		-	-
(Increase)/decrease of net trading securities		-	-
(Increase)/decrease of placement to other banks		-	-
(Increase)/decrease of investments to customers		(118,900,164,587)	(270,192,497,207)
(Increase)/decrease of other assets		(34,778,689,651)	(24,228,468,461)
Increase/(decrease) of placement from other banks		23,940,535,141	150,673,069,400
Increase/(decrease) of deposits from other banks		11,300,560,104	5,131,425,754
Increase/(decrease) of deposits received from customers		112,820,016,793	23,334,474,088
Increase/(decrease) of other liabilities account of customers		-	-
Increase/(decrease) of trading liabilities		-	-
Increase/(decrease) of other liabilities		46,151,994,507	16,438,211,091
(II) Cash flows from operating assets and liabilities		**(19,425,647,496)**	**(98,843,785,395)**
Net cash flows from operating activities (A)=(I)+(II)		**(17,351,396,647)**	**(89,655,476,581)**
Cash flows from investing activities			
Proceeds from sale of securities/BGIIB/Sukuk		2,416,290,015	4,364,737,030
Payment for purchase of securities/BGIIB/Sukuk		-	-
Placement to Islamic Refinance Fund Account		-	-
Payment for purchase of securities/membership		-	-
Purchase/sale of property, plants & equipments		1,557,188,784	(1,379,952,703)
Purchase/sale of subsidiaries		-	-
Net cash flows from investing activities (B)		**3,973,478,799**	**2,984,784,327**
Cash flows from financing activities			
Receipts from issue of debt instruments		5,000,000,000	3,824,160,000
Payment for redemption of debt instruments		(4,800,000,000)	(3,600,000,000)
Receipts from issuing ordinary share/ right share		-	-
Dividend paid in cash		(1,609,990,668)	(1,609,990,668)
Net cash flows from financing activities (C)		**(1,409,990,668)**	**(1,385,830,668)**
Net increase/(decrease) in cash (A+B+C)		**(14,787,908,516)**	**(88,056,522,924)**
Add/(Less): effects of exchange rate changes on cash & cash equivalent		(20,341,230)	28,826,224
Add: cash & cash equivalents at beginning of the year		234,291,796,992	322,319,492,681
Cash & cash equivalents at the end of the year	45.0	**219,483,547,246**	**234,291,796,992**

The annexed notes form an integral part of these financial statements.

Director Director Director **Managing Director & CEO**

This is the cash flow statement referred to in our separate report of even date.

Signed for & on behalf of
ACNABIN
Chartered Accountants

Md. Moniruzzaman, FCA
ICAB Enrolment no: 0787
DVC No: 2404240787AS251665

Dhaka; 24 April 2024

Signed for & on behalf of
Khan Wahab Shafique Rahman & Co.
Chartered Accountants

Mohammad Shaheed, FCA, FCMA
ICAB Enrolment no: 1016
DVC No: 2404241016AS734706

Islami Bank Bangladesh PLC.
Statement of Changes in Equity
For the year ended 31 December 2023

(Amount in Taka)

Particulars	Paid-up capital	Share premium	Statutory reserve	General/ other reserves(*)	Assets revaluation reserve	Revaluation reserve of securities	Retained earnings	Total
1	2	3	4	5	6	7	8	9 (2+3+4+5+6+7+8)
Balance as at 01 January 2023	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sale of revalued assets and Deferred tax on revaluation surplus	-	-	-	-	[illegible]	[illegible]	-	[illegible]
Deferred tax impact on excess depreciation	-	-	-	-	[illegible]	-	-	[illegible]
Depreciation adjustment on revalued fixed assets	-	-	-	-	[illegible]	-	[illegible]	-
Surplus/ (deficit) on account of revaluation	-	-	-	-	-	[illegible]	-	[illegible]
Currency translation differences	-	-	-	[illegible]	-	-	-	[illegible]
Net gain and losses not recognised in the income statement/Revaluation reserve of securities transferred to retained earnings	-	-	-	-	-	-	[illegible]	[illegible]
Net profit for the year	-	-	-	-	-	-	[illegible]	[illegible]
Transfer to/ (from) reserve	-	-	[illegible]	[illegible]	-	-	[illegible]	-
Dividend:								-
Bonus shares	-	-	-	-	-	-	-	-
Cash dividend		-	-	-	-	-	[illegible]	[illegible]
Start-up Fund transferred from retained earnings	-	-	-	-	-	-	[illegible]	[illegible]
Coupon/dividend on perpetual bond	-	-	-	-	-	-	[illegible]	[illegible]
Total shareholders' equity as on 31 December 2023	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Add: Mudaraba perpetual bond	-	-	-	-	-	-	-	[illegible]
Add: Mudaraba redeemable subordinated bond	-	-	-	-	-	-	-	[illegible]
Add: General provision for unclassified investments and off-balance sheet items (Note [illegible])	-	-	-	[illegible]	-	-	-	[illegible]
Less: Year-wise redemption	-	-	-	-	-	-	-	[illegible]
Adjustment for intangible assets	-	-	-	[illegible]	-	-	-	[illegible]
Adjustment for currency translation differences	-	-	-	[illegible]	-	-	-	[illegible]
Less: Assets revaluation reserve (Note [illegible])	-	-	-	-	[illegible]	-	-	[illegible]
Less: Revaluation reserve of securities (Note [illegible])	-	-	-	-	-	[illegible]	-	[illegible]
Total equity as on 31 December 2023	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	[illegible]

(*) Note : General / other reserves

Particulars	[illegible]	[illegible]
General reserve	[illegible]	[illegible]
Dividend equalization account	[illegible]	[illegible]
Currency translation differences	[illegible]	[illegible]
Total	[illegible]	[illegible]

ACNABIN Chartered Accountants Dhaka

Khan Wahab Shafique Rahman & Co. Chartered Accountants

19

Islami Bank Bangladesh PLC.
Statement of Changes in Equity
For the year ended 31 December 2023

(Amount in Taka)

Particulars	Paid up capital	Share premium	Statutory reserve	General/ other reserves	Assets revaluation reserve	Revaluation reserve of securities	Retained earnings	Total
1	2	3	4	5	6	7	8	9 (2+3+4+5+6+7+8)
Balance as at 01 January 2023	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deferred tax on revaluation surplus	-	-	-	-	-	[illegible]	-	[illegible]
Deferred tax impact on excess depreciation	-	-	-	-	[illegible]	-	-	[illegible]
Depreciation adjustment on revalued fixed assets	-	-	-	-	[illegible]	-	[illegible]	-
Surplus/ (deficit) on account of revaluation	-	-	-	-	-	[illegible]	-	[illegible]
Currency translation differences	-	-	-	[illegible]	-	-	-	[illegible]
Net gains and losses not recognised in the income statement/Revaluation reserve of securities transferred to retained earnings	-	-	-	-	-	-	[illegible]	[illegible]
Net profit for the year	-	-	-	-	-	-	[illegible]	[illegible]
Transfer to (from) reserve	-	-	[illegible]	[illegible]	-	-	[illegible]	-
Dividend								
Bonus shares	-	-	-	-	-	-	-	-
Cash dividend		-	-	-	-	-	[illegible]	[illegible]
Start-up Fund transferred from retained earnings	-	-	-	-	-	-	[illegible]	[illegible]
Coupon/dividend on perpetual bond	-	-	-	-	-	-	[illegible]	[illegible]
Total shareholders' equity as on 31 December 2023	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Add: Mudaraba perpetual bond	-	-	-	-	-	-	-	[illegible]
Add: Mudaraba redeemable subordinated bond	-	-	-	-	-	-	-	[illegible]
Add: General provision for unclassified investments and off- balance sheet items (Note-[illegible])	-	-	-	[illegible]	-	-	-	[illegible]
Less: [illegible]	-	-	-	-	-	-	-	[illegible]
Adjustment for intangible assets	-	-	-	[illegible]	-	-	-	[illegible]
Adjustment for currency translation differences	-	-	-	[illegible]	-	-	-	[illegible]
Less: Assets revaluation reserve (Note-[illegible])	-	-	-	-	[illegible]	-	-	[illegible]
Less: Revaluation reserve of securities (Note-[illegible])	-	-	-	-	-	[illegible]	-	[illegible]
Total equity as on 31 December 2023	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	[illegible]

The annexed notes form an integral part of these financial statements.

Director

Director

Managing Director & CEO

This is the statement of changes in equity referred to in our separate report of even date.

Signed for & on behalf of
ACNABIN
Chartered Accountants

Md. Moniruzzaman, FCA
ICAB Enrolment no: [illegible]
DVC No: [illegible]
Dhaka, 24 April 2024

Signed for & on behalf of
Khan Wahab Shafique Rahman & Co.
Chartered Accountants

Mohammad Shaheed, FCA, FCMA
ICAB Enrolment no: [illegible]
DVC No: [illegible]

Islami Bank Bangladesh PLC.
Liquidity Statement
Assets & Liabilities Analysis
As at 31 December 2023

Amount in taka

Particulars	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 years	More than 5 years	Total 31.12.2023	Total 31.12.2022
1	2	3	4	5	6	7=(2 + 3 + 4 + 5 + 6)	8
ASSETS							
Cash in hand	58,156,272,005	-	-	-	59,748,451,800	117,904,723,805	123,504,792,624
Balance with other banks & financial institutions (Note-8.3)	83,616,648,230	13,165,000,000	3,610,000,000	-	1,387,176,000	101,778,824,230	130,707,084,358
Placement with Banks & other Financial Institutions	-	-	-	-	-	-	-
Investments (in shares & securities) (Note-10.4)	791,324,837	800,000,000	7,906,150,000	3,841,600,000	34,599,098,584	48,938,173,421	50,454,063,436
General investments etc. (Note-11.1.1)	209,380,234,880	130,695,233,303	514,148,278,945	219,808,891,116	321,255,420,770	1,405,382,159,015	1,335,640,697,786
Bills purchased & discounted (Note-11.2.1)	110,948,161,850	55,474,093,923	18,491,350,309	-	-	184,913,605,084	134,121,889,727
Fixed assets including premises (land & building), furniture and fixtures (Note-12.3)	-	-	-	-	15,435,663,200	15,435,663,200	16,437,320,088
Other assets (Note-13.1)	-	-	-	-	108,309,536,758	108,309,536,758	33,590,927,196
Non - banking assets	-	-	-	-	-	-	-
Total Assets	**462,095,783,804**	**233,134,266,228**	**544,156,877,255**	**223,818,491,116**	**508,735,348,311**	**2,031,832,782,714**	**1,828,080,208,126**
LIABILITIES							
Placement from banks & other financial institutions	78,150,755,911	72,899,229,343	48,454,713,169	11,983,464,055	7,888,750,063	211,378,534,541	187,438,365,400
Deposits (Note-15.5)	298,813,398,731	449,555,283,438	383,267,509,500	316,183,513,600	81,917,300,000	1,534,566,006,233	1,416,445,420,239
Other accounts	-	-	-	-	-	-	-
Provision & other liabilities (Note-17.11)	8,986,999,179	9,077,776,848	27,213,330,843	18,155,533,093	118,517,867,093	181,951,828,285	139,575,729,182
Deferred tax liability/(assets)	59,926,548	60,331,807	181,595,800	121,063,733	780,419,673	1,203,337,431	1,458,513,201
Mudaraba perpetual bond	-	-	-	-	11,000,000,000	11,000,000,000	11,000,000,000
Mudaraba redeemable subordinated bond	-	-	4,800,000,000	12,200,000,000	3,200,000,000	20,200,000,000	20,000,000,000
Total Liabilities	**370,011,083,009**	**531,392,823,496**	**463,937,151,116**	**368,644,094,723**	**226,354,343,326**	**1,960,339,996,850**	**1,769,918,051,042**
Net Liquidity Gap	92,084,697,515	(311,258,537,268)	80,219,726,139	(144,826,103,607)	354,381,005,005	71,492,786,164	68,162,154,084

Director | Director | Director | Managing Director & CEO

This is the liquidity statement referred to in our separate report of even date.

Signed for & on behalf of
ACNABIN
Chartered Accountants

Md. Moniruzzaman, FCA
ICAB Enrolment no: 0787
DVC No: 2404240787AS281665
Dhaka, 24 April 2024

Signed for & on behalf of
Khan Wahab Shafique Rahman & Co.
Chartered Accountants

Mohammad Shaheed, FCA, FCMA
ICAB Enrolment no: 1016
DVC No: 2404241016AS734706

Short Questions

1. What are the key financial statements that banks in Bangladesh must prepare to assess their financial health?
2. How does the balance sheet of an Islamic bank differ from that of a conventional bank?
3. What is the significance of BRPD Circular No. 14 in the preparation of bank financial statements in Bangladesh?
4. How does the Profit and Loss Account of a Shariah-based bank differ in terms of revenue reporting compared to a conventional bank?
5. What regulatory frameworks guide the financial reporting of banks, specifically Shariah-based banks, in Bangladesh?
6. In the financial statements of Islamic banks, what replaces "interest income" found in conventional banks' income statements?
7. What role do Shariah Supervisory Boards play in ensuring the compliance of Islamic banks' financial statements with Islamic principles?
8. How are liabilities reported differently in Shariah-based banks compared to conventional banks?
9. What are the unique components found in the financial statements of Shariah-based banks but not in conventional banks?
10. What are the challenges Shariah-based banks face in terms of liquidity management as reflected in their financial statements?
11. How are deposit products in Islamic banks, such as Mudarabah savings accounts, reflected in their financial statements compared to fixed deposit accounts in conventional banks?
12. What key disclosures must Shariah-based banks include in their financial statements to ensure compliance with Islamic principles?
13. How does the concept of profit-sharing in Islamic banking differ from interest-based lending in conventional banking, as seen in financial reporting?
14. What role does the Statement of Changes in Equity play in the financial statements of Islamic banks?
15. What types of reserves are unique to Shariah-based banks, and how are they reported in the balance sheet?

Module F: Other Forms of Business Organizations

IBB Syllabus for Module F: Other Entities • Sole proprietorship, Partnership, Hindu Undivided Family (HUF), Joint ventures, Corporation - Private Limited Corporation and Public Limited Corporation.

Contents of this Chapter
Introduction
Sole Proprietorship Businesses
Characteristics of Sole Proprietorship Businesses
Financial Reporting of Sole Proprietorship Businesses
Financial Transparency and Lender Considerations for Sole Proprietorship Businesses
Compliance and Other Relevant Issues for Sole Proprietorship Businesses
Partnership Firms in Bangladesh
Characteristics of a Partnership Firm
Accounting Concepts in a Partnership Firm
Financial Reporting of a Partnership Firm
Advantages of a Partnership Firm
Disadvantages of a Partnership Firm
Compliance and Regulatory Issues
Lenders' Perspective on Lending to a Partnership Firm
Differences between Single Owner Business and Partnership Firms (With Focus on Accounting and Lenders' Perspectives)
Corporations in Bangladesh - Private Limited Corporations and Public Limited Corporations
Characteristics of Private Limited and Public Limited Corporations
Key Accounting Concepts and Financial Reporting
Advantages and Disadvantages of Private and Public Limited Corporations
Compliance Requirements

Differences between Private Limited Corporations and Public Limited Corporations
Lenders' Perspectives on Lending to Private and Public Limited Corporations
Joint Venture
Characteristics of Joint Ventures
Accounting Concepts for Joint Ventures
Financial Reporting
Taxation Issues
Compliance with Laws and Regulations
Advantages of Joint Ventures
Disadvantages of Joint Ventures
Financial Reporting Issues
Lenders' Perspective
Hindu Undivided Family (HUF)
Characteristics of HUF
Accounting Concepts and Financial Reporting for HUF
Financial Reporting Standards for HUF
Compliance Requirements
Advantages of HUF
Disadvantages of HUF
Lenders' Perspective on Dealing with HUF
Short Questions

Introduction

Business organizations can take various forms, each with distinct features affecting their financial accounting and reporting. In this chapter, we will cover the financial accounting implications for Sole Proprietorship, Partnership, Hindu Undivided Family (HUF), Joint Ventures, and Corporations (including both Private Limited Corporation and Public Limited Corporation). Each of these forms presents unique challenges and opportunities for financial management, taxation, and compliance with legal frameworks.

Sole Proprietorship Businesses

A sole proprietorship is a popular form of business organization in Bangladesh due to its simplicity and ease of establishment. In this structure, a single individual owns, controls, and manages the business. From a financial accounting perspective, the sole proprietorship has several distinct characteristics and requirements, particularly in terms of accounting practices, financial reporting, taxation, and compliance. Additionally, lenders consider specific factors when extending credit to such businesses, making financial transparency and solvency critical in loan evaluation.

1. Characteristics of Sole Proprietorship Business

1.1 Single Entity

In a sole proprietorship, there is no legal separation between the business and the owner. The assets and liabilities of the business are effectively the owner's. However, for accurate financial reporting, accounting standards require the owner to maintain a clear distinction between personal and business transactions. This ensures proper financial tracking and transparency.

1.2 The Accounting Equation

The accounting equation—**Assets = Liabilities + Owner's Equity -** applies to sole proprietorships, as it does to other business forms. In this case, the owner's equity represents the owner's direct investment in the business. This equity increases with capital contributions and retained earnings (profits left in the business) and decreases through drawings (owner's withdrawals for personal use).

1.3 Owner's Equity and Drawings

Unlike corporations that issue equity shares, sole proprietorships rely on the owner's personal capital to fund operations. Any capital injected by the owner becomes part of owner's equity, while profits generated by the business are also added to this equity. Conversely, when the owner withdraws money for personal use (drawings), it reduces the equity in the business.

Drawings are not considered business expenses but rather reductions in the owner's investment. This makes it essential to distinguish between personal withdrawals and legitimate business expenses in the financial records.

2. Financial Reporting

2.1 Single Set of Books

Sole proprietors typically maintain a basic set of books, which includes:

- **Cash Book**: To track cash receipts and payments.
- **Income Statement (Profit and Loss Statement)**: To summarize revenue, expenses, and net profit or loss over a period.
- **Balance Sheet**: To detail assets, liabilities, and owner's equity at a specific date.

While financial statements for sole proprietorships are not required to be made public, they may be necessary for specific purposes such as obtaining loans from banks or engaging in contracts with larger firms. Proper bookkeeping and financial reporting are crucial to demonstrating the financial health of the business, especially when seeking external funding.

2.2 Lack of IFRS/GAAP Compliance

In most cases, sole proprietors in Bangladesh are not required to adhere to International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). This contrasts with larger businesses that may have international dealings, as compliance with these standards would then become necessary.

Instead, accounting for sole proprietorships remains straightforward, with a focus on accurate cash flow tracking, revenue recognition, and expense categorization. However, when a sole proprietor deals with international clients or suppliers, compliance with such standards may be required for transparency and comparability.

3. Financial Transparency and Lender Considerations

3.1 Lender Perspective

From a lender's perspective, lending to a sole proprietorship presents unique challenges. The lack of a legal distinction between the owner and the business means that lenders view the personal financial health of the owner and the business's solvency as intertwined. For this reason, the following factors are considered:

- **Personal Creditworthiness**: Lenders will scrutinize the proprietor's personal credit history, as the owner is personally liable for all business debts.
- **Business Financial Health**: Detailed financial statements and records are essential for evaluating the business's ability to repay a loan. A lender will likely ask for the balance sheet, profit and loss statement, and cash flow details.
- **Collateral**: Because the owner is personally liable, lenders often require personal assets as collateral. This increases the risk for the owner but also provides reassurance to the lender.
- **Business Plan and Projections**: For larger loans, lenders may require a comprehensive business plan with financial projections to assess the long-term viability of the business.

3.2 Lack of Limited Liability

Since the sole proprietor has unlimited liability, personal assets are at risk if the business cannot meet its obligations. This situation is a key concern for lenders, as they need to evaluate both the business's risk profile and the owner's ability to cover potential losses.

4. Compliance and Other Relevant Issues

4.1 Legal and Regulatory Compliance

In Bangladesh, sole proprietors must register their business with the appropriate government authority, such as the Registrar of Joint Stock Companies and Firms. Additionally, if the business deals in goods or services subject to VAT (Value-Added Tax), registration with the National Board of Revenue (NBR) is required.

Compliance with basic tax laws and labor regulations is necessary, especially if the business has employees. However, the compliance burden is generally lower for sole proprietorships compared to other business structures, such as private limited companies.

4.2 Succession Planning and Continuity

Sole proprietorships face challenges regarding continuity and succession. Upon the owner's death or incapacity, the business often ceases to exist, as there is no legal entity distinct from the owner. While this poses risks for lenders and other stakeholders, careful succession planning and the potential transfer of ownership to a family member or trusted partner can help mitigate these risks.

Sole proprietorships are attractive for entrepreneurs in Bangladesh due to their simplicity, minimal compliance requirements, and direct taxation structure. However, financial accounting practices, transparency, and compliance with regulatory standards remain critical for both the business owner and external stakeholders, such as lenders. Proper financial management ensures the business's sustainability and the owner's financial well-being, while also instilling confidence in potential lenders or investors.

Partnership Firms in Bangladesh

A partnership firm is a business structure where two or more individuals come together to carry on a business with the goal of making a profit. In Bangladesh, partnership firms are governed by the Partnership Act of 1932, which provides the framework for formation, operations, and dissolution. The financial accounting and reporting practices of a partnership firm are crucial not only for the internal management but also for external stakeholders, including lenders, tax authorities, and regulatory bodies.

This write-up will provide an expert-level discussion on the characteristics, accounting concepts, advantages, disadvantages, financial reporting, taxation, compliance, and other relevant issues related to partnership firms in Bangladesh from a financial accounting perspective.

Characteristics of a Partnership Firm

1. **Mutual Agreement**: A partnership firm is formed by mutual agreement among partners, which can be either oral or written. A written agreement, often termed a partnership deed, outlines profit-sharing ratios, responsibilities, and other operational specifics.
2. **Shared Responsibility**: Partners share responsibilities for management and operational decisions. In the absence of a deed specifying otherwise, all partners contribute to and share profits equally, but they also share the liabilities.
3. **Unlimited Liability**: The liability of partners in a general partnership is unlimited. This means that personal assets of the partners can be used to settle the firm's debts in case of liquidation or insolvency, which makes the structure riskier for the partners.
4. **Lack of Separate Legal Entity**: Unlike companies, a partnership firm does not have a distinct legal personality. The firm and its partners are considered one and the same in terms of legal liability.
5. **Limited Duration**: A partnership may be dissolved at any time, especially if one partner decides to leave or if the partners mutually agree to end the firm.

Accounting Concepts in a Partnership Firm

1. **Separate Entity Concept**: Although a partnership firm lacks a distinct legal identity, it is treated as a separate entity for accounting purposes. The firm's transactions are recorded separately from the personal transactions of the partners.
2. **Profit and Loss Appropriation**: The profit or loss of the firm is distributed among partners based on the profit-sharing ratio agreed upon in the partnership deed. This distribution is recorded in the partners' capital accounts.
3. **Capital and Current Accounts**: Partners typically maintain two types of accounts in the firm: capital accounts and current accounts. The capital account reflects long-term contributions, while the current account reflects ongoing transactions like share of profits, interest on capital, drawings, etc.
4. **Interest on Capital and Drawings**: In many partnership firms, interest is paid to partners on their capital contributions, and interest is charged on the amount they withdraw (drawings). Both are recorded in the financial statements and impact profit distribution.
5. **Goodwill Accounting**: In cases of partner retirement, admission, or dissolution, goodwill valuation becomes important. The valuation method is typically based on an agreement or prior earnings and needs to be accounted for properly.

Financial Reporting of a Partnership Firm

1. **Financial Statements**: The key financial statements prepared by partnership firms are:
    - **Statement of Financial Position (Balance Sheet)**: Shows assets, liabilities, and capital of the firm.
    - **Statement of Profit or Loss (Income Statement)**: Displays revenue and expenses, leading to the net profit or loss of the firm.
    - **Profit and Loss Appropriation Statement**: This statement shows the distribution of profits and any appropriations made such as interest on capital, salary to partners, and distribution of the residual profit.
2. **Accounting Standards**: Partnership firms in Bangladesh generally follow the **Bangladesh Financial Reporting Standards (BFRS)**, particularly for recognition, measurement, and disclosure of assets, liabilities, and income. However, small partnership firms often use simplified accounting rules unless required otherwise by lenders or regulators.

3. **Audit Requirements**: While partnerships do not have mandatory audit requirements unless specified by lenders or regulatory authorities, maintaining transparency through auditing is beneficial, especially when dealing with external creditors.

Advantages of a Partnership Firm

1. **Ease of Formation**: A partnership firm can be formed relatively easily through a simple agreement.
2. **Flexible Management**: Partners have the flexibility to manage the business, allocate roles, and make decisions without a complex structure.
3. **Capital Pooling**: The ability to pool capital from multiple partners helps the business to scale and manage operations effectively.
4. **Tax Benefits**: In Bangladesh, partnership firms benefit from a lower tax rate compared to corporations. The income of the partnership is taxed at the individual partners' level, which may result in overall tax savings.

Disadvantages of a Partnership Firm

1. **Unlimited Liability**: Partners have unlimited liability, which puts their personal assets at risk in the event of business failure.
2. **Lack of Continuity**: The death, retirement, or insolvency of a partner can lead to the dissolution of the firm unless otherwise agreed upon in the partnership deed.
3. **Conflicts among Partners**: Differences in opinion or disputes can arise among partners, which can affect the business's operations and profitability.
4. **Limited Access to Capital**: Compared to corporations, partnerships may find it harder to access large amounts of capital due to their smaller size and perceived risk by lenders.

Compliance and Regulatory Issues

1. **Registration**: Although it is not mandatory to register a partnership firm in Bangladesh, it is highly recommended as registration provides legal recognition. A registered firm can sue or be sued, which is crucial in business disputes.
2. **Maintenance of Books of Accounts**: The Partnership Act and tax authorities mandate the maintenance of proper books of accounts, including cash books, ledgers, and profit-sharing records, for transparency and tax assessments.

3. **Licensing Requirements**: Depending on the nature of the business, specific licenses (e.g., trade license) may be required to operate legally within Bangladesh.

Lenders' Perspective on Lending to a Partnership Firm

From the perspective of a lender, lending money to a partnership firm carries certain risks and considerations:

1. **Unlimited Liability of Partners**: The lender views the unlimited liability as both a risk and a safeguard. While the partners are personally liable for the firm's debts, the possibility of their personal assets being at risk adds security for the lender.
2. **Collateral and Personal Guarantees**: Lenders may require personal guarantees or collateral from the partners to mitigate risk. Real estate, fixed deposits, or other personal assets may be pledged as security for loans.
3. **Financial Health and Transparency**: Before lending, the lender will scrutinize the firm's financial statements, audit reports (if available), and cash flow to assess the firm's ability to meet debt obligations. Strong financial reporting, audited statements, and compliance with accounting standards improve the firm's creditworthiness.
4. **Partnership Deed Clauses**: Lenders often review the partnership deed to ensure that the firm has clear terms for capital contribution, profit-sharing, dissolution, and admission/retirement of partners, as these directly impact the firm's financial stability.
5. **Risk of Dissolution**: The ease with which a partnership can dissolve poses a risk to lenders. Lenders may include clauses in loan agreements to protect their interests in case of dissolution, requiring the partners to settle outstanding debts before distribution of assets.

A partnership firm in Bangladesh offers flexibility and ease of operation, making it a popular business structure. However, from a financial accounting perspective, managing the firm's liabilities, maintaining proper financial reporting, and complying with tax regulations are crucial for its sustainability. For lenders, the financial stability of a partnership firm, personal liability of the partners, and transparent financial statements are key factors when considering lending money to the firm. Despite some disadvantages such as unlimited liability and potential internal conflicts, a well-managed partnership firm can be a highly effective business model.

Differences between Single Owner Business and Partnership Firms (With Focus on Accounting and Lenders' Perspectives)

Aspect	Single Owner Business	Partnership Firm
Ownership Structure	Owned by a single individual.	Owned by two or more individuals who share ownership.
Legal Entity	Not a separate legal entity from the owner. Owner and business are considered the same entity.	Separate legal entity from the partners in some jurisdictions, but partners are jointly liable for debts.
Capital Contribution	Capital is contributed solely by the owner.	Partners contribute capital as per the partnership agreement. Capital contributions may vary between partners.
Decision Making	Centralized decision-making with the owner having full control.	Decisions are made jointly by partners, often based on the partnership agreement.
Accounting Entity Concept	Business and personal finances are often mixed, though they should be accounted for separately for clarity.	Business is treated as a distinct accounting entity from the personal finances of the partners. Separate capital accounts for each partner.
Profit & Loss Allocation	All profits and losses are borne by the sole owner.	Profits and losses are shared among partners as per the partnership agreement.
Capital Accounts	No need for separate capital accounts. Owner's capital and drawings are tracked together.	Each partner has a separate capital account, tracking contributions, withdrawals, and the share of profits.
Liability	Unlimited liability. The owner is personally liable for all business debts and obligations.	Partners have unlimited liability unless the firm is a Limited Liability Partnership (LLP). Partners can be held personally liable for the firm’s obligations.

Continuity	The business ceases to exist upon the owner's death or decision to close.	Continuity depends on the partnership agreement. Some partnerships dissolve upon a partner's death, while others continue.
Taxation	Income is taxed as personal income of the owner.	Partnership firms are taxed as a separate entity, but profits are distributed to partners, who are taxed on their share of income.
Audit Requirements	Generally, no mandatory audit requirement unless turnover exceeds certain thresholds.	Audits may be mandatory based on the size and nature of the firm, especially in cases of LLPs or large partnerships.
Financial Reporting	Simpler financial reporting. Financial statements primarily for tax purposes and internal use.	Requires detailed financial statements, including capital accounts for each partner. Profit-sharing ratios and other partner-specific details must be disclosed.
Lenders' Perspective: Risk Assessment	Higher risk for lenders due to the dependence on a single individual's financial capacity and business continuity.	Lenders assess the collective financial strength of the partners. The risk is somewhat spread across multiple individuals.
Lenders' Perspective: Collateral	Typically, personal assets of the owner are used as collateral since the business is not separate from the individual.	Business assets and personal assets of partners can be used as collateral, subject to partnership agreements. All partners may need to agree for collateralization.
Lenders' Perspective: Creditworthiness	Creditworthiness is based on the owner's personal financial standing and business performance.	Creditworthiness is assessed based on the firm's financials and the individual partners' financial standing. The partnership's track record also matters.

Lenders' Perspective: Debt Repayment	The sole owner is solely responsible for repayment. This poses a higher risk to lenders in case of default.	All partners are jointly and severally liable for debts unless an LLP structure is in place. The burden of repayment is shared, providing more security to lenders.
Expansion Potential	Limited growth potential due to constraints on the owner's resources and expertise.	Greater potential for expansion as partners can pool resources, expertise, and contacts. Easier to raise capital.
Ease of Formation	Simple and inexpensive to form with minimal regulatory requirements.	Requires a formal partnership agreement and possibly registration, depending on the jurisdiction. More complex than a sole proprietorship.
Compliance & Regulatory Requirements	Fewer regulatory and compliance requirements, primarily related to tax filings.	More regulatory compliance, including partnership agreements, profit-sharing disclosures, and possibly audits.

This table highlights the key differences between a single owner business and a partnership firm, particularly in terms of accounting practices and how lenders assess their risk and creditworthiness. Partnerships tend to offer greater financial and management flexibility, but they come with increased complexity in financial reporting and regulatory compliance.

Corporations in Bangladesh -Private Limited Corporations and Public Limited Corporations

A corporation, in its simplest form, is a legal entity separate from its owners, established through registration with the relevant government authorities. Corporations in Bangladesh, similar to other countries, are primarily of two types: Private Limited Corporations and Public Limited Corporations. Each type of corporation serves different purposes and caters to different market demands, having unique characteristics, advantages, disadvantages, financial reporting requirements, and compliance regulations.

In this write-up, we will delve into the financial and regulatory aspects of both Private and Public Limited Corporations in the context of Bangladesh, focusing on characteristics, accounting concepts, financial reporting, taxation, compliance, and the implications from a lender's perspective.

1. Characteristics of Private Limited and Public Limited Corporations

Private Limited Corporation

A Private Limited Corporation in Bangladesh is often formed by smaller groups of individuals or family members and operates under specific restrictions that distinguish it from a Public Limited Corporation.

- **Limited Liability**: Shareholders are only liable for the corporation’s debts up to the amount they have invested.
- **Ownership Structure**: The number of shareholders is limited (up to 50 in Bangladesh), and shares cannot be publicly traded.
- **Restricted Transfer of Shares**: The company’s shares are not freely transferable. Shareholder consent is typically required for any share transfer.
- **Smaller Scale of Operations**: Private limited companies generally cater to smaller or medium-sized businesses and often have lower capital requirements compared to public corporations.

Public Limited Corporation

A Public Limited Corporation, on the other hand, is designed to attract large numbers of investors and raise significant capital through public share offerings.

- **Unlimited Shareholders**: There is no cap on the number of shareholders.
- **Publicly Traded Shares**: The corporation can offer its shares to the general public via the stock exchange, allowing for greater access to capital.
- **Increased Regulatory Scrutiny**: Public corporations are subject to stricter regulations to ensure transparency and protect public investors.
- **Higher Capital Requirements**: Public companies usually need to meet more stringent capital and financial disclosure requirements.

2. Key Accounting Concepts and Financial Reporting

Financial accounting for both types of corporations revolves around the core principles of transparency, consistency, and accuracy. However, the specific accounting standards and financial reporting requirements can differ significantly between Private Limited and Public Limited Corporations.

Private Limited Corporation: Financial Reporting

Private limited corporations are subject to financial reporting, but the level of detail and frequency is often less rigorous than for public corporations. The key accounting concepts include:

- **Periodic Financial Statements**: Like all businesses, private limited corporations need to prepare annual financial statements, including an income statement, balance sheet, and cash flow statement, in accordance with the Bangladesh Financial Reporting Standards (BFRS).
- **Conservatism**: Private corporations tend to follow a conservative approach to financial reporting, ensuring that potential liabilities and risks are clearly reflected.
- **Audit Requirements**: While audits are mandatory for larger private companies, smaller ones may not require external audits unless stipulated by shareholders or other stakeholders, such as lenders.

Public Limited Corporation: Financial Reporting

For public limited corporations, the reporting requirements are far more comprehensive due to their impact on the public and stock markets:

- **Regular and Detailed Financial Reports**: Public limited corporations must provide quarterly and annual financial reports in compliance with BFRS and International Financial Reporting Standards (IFRS).
- **Transparency**: The financial reports must be transparent, reflecting the company's financial position accurately to protect investors and stakeholders.
- **Auditing Requirements**: Annual audits by independent third-party auditors are mandatory, with public disclosure of the audit results.
- **Continuous Disclosure**: Any material financial or operational changes must be promptly reported to regulators and investors.

Private Limited Corporation: Taxation

Private limited companies are taxed based on their net profits, with the corporate tax rate depending on the industry. The general corporate tax rate for non-public companies in Bangladesh is approximately 30%. Some tax incentives may be available for companies operating in special economic zones or export processing zones.

- **Tax Planning**: Private limited companies often engage in tax planning to minimize their tax liabilities, such as through depreciation, investment allowances, or other deductions.
- **Dividends**: Dividends paid to shareholders are subject to additional withholding tax.

3. Advantages and Disadvantages of Private and Public Limited Corporations

Private Limited Corporation: Advantages

- **Control**: Owners have greater control over the business.
- **Confidentiality**: Financial statements are typically not available to the public, allowing more privacy.
- **Lower Regulatory Burden**: Private companies are subject to fewer regulations compared to public companies.

Private Limited Corporation: Disadvantages

- **Limited Access to Capital**: Raising capital is more challenging since shares cannot be publicly traded.
- **Restricted Growth**: The limited number of shareholders can sometimes restrict expansion opportunities.

Public Limited Corporation: Advantages

- **Access to Capital**: The ability to raise capital through the stock exchange is a significant advantage.
- **Liquidity**: Shareholders can easily buy or sell shares, increasing liquidity.
- **Visibility and Prestige**: Public companies often enjoy greater visibility and brand recognition.

Public Limited Corporation: Disadvantages

- **Regulatory Compliance**: Public corporations face a much higher level of regulatory scrutiny, including stringent financial reporting and corporate governance requirements.
- **Loss of Control**: Original owners may lose some control over the company as more shares are issued to the public.

4. Compliance Requirements

Both private and public limited corporations must comply with the Companies Act, 1994, in Bangladesh, but the level of regulatory compliance differs significantly.

Private Limited Corporation: Compliance

- **Simpler Governance Structures**: Private limited companies have more flexibility in their internal governance structures.
- **Less Frequent Reporting**: Private companies are not required to disclose as much financial or operational information to the public.

Public Limited Corporation: Compliance

- **Stringent Corporate Governance**: Public companies must comply with detailed corporate governance regulations, including having a board of directors with independent members.
- **Securities and Exchange Commission (SEC) Regulations**: Public companies must comply with SEC regulations concerning public disclosures, financial reporting, and investor protections.

5. Differences between Private Limited Corporations and Public Limited Corporations

Aspect	**Private Limited Corporation**	**Public Limited Corporation**
Number of Shareholders	Up to 50 shareholders	Unlimited
Share Transferability	Restricted	Freely transferable on the stock exchange
Capital Raising	Limited to private investment	Can raise capital through public offerings

Financial Reporting	Less frequent and less detailed	Regular and detailed reporting required
Regulatory Scrutiny	Less regulatory scrutiny	High regulatory scrutiny
Tax Rates	Slightly higher corporate tax rates	Lower tax rates for public corporations
Control	Centralized control among fewer shareholders	Distributed control among more shareholders
Compliance	Easier compliance procedures	Stricter compliance with corporate governance laws

6. Lenders' Perspectives on Lending to Private and Public Limited Corporations

Lenders play a crucial role in providing financial support to corporations, and their perspectives on lending can differ based on whether the corporation is private or public.

Lending to Private Limited Corporations

Lenders view private limited corporations as higher risk due to the limited number of shareholders, smaller scale of operations, and restricted access to capital markets. To mitigate these risks, lenders may:

- **Require Collateral**: Given the perceived risk, lenders often demand collateral, such as property or personal guarantees from shareholders.
- **Higher Interest Rates**: Private corporations may face higher interest rates due to the higher risk of lending to smaller companies with limited transparency.

Lending to Public Limited Corporations

Public limited corporations are generally perceived as lower-risk borrowers because of their larger capital base, greater transparency, and regulatory oversight.

- **Lower Risk Premiums**: Public companies often receive loans at more favorable terms, including lower interest rates, due to their stronger financial position and broader access to capital markets.
- **Confidence in Transparency**: Lenders trust that public companies’ financial reports are accurate and reflect their true financial condition, thanks to the rigorous auditing and reporting requirements.

In the context of Bangladesh, private and public limited corporations serve distinct purposes and cater to different segments of the economy. From a financial accounting perspective, public companies offer greater transparency and access to capital, but at the cost of increased regulatory scrutiny and loss of control. On the other hand, private companies retain more control and privacy, albeit with limited access to funding and higher financial risk for lenders.

Ultimately, the choice between operating as a private or public limited corporation depends on the corporation's long-term goals, capital needs, and risk appetite. Both forms of corporations play a crucial role in Bangladesh's growing economy,

Joint Venture

1. Introduction

A joint venture (JV) is a business arrangement where two or more parties come together to pool resources, share risks, and collaborate for a common business goal. Each party maintains its separate legal identity, but the JV operates as a distinct entity. In the context of Bangladesh, JVs are commonly formed between local firms and foreign companies, particularly in sectors like telecommunications, energy, infrastructure, and manufacturing.

This write-up aims to provide an in-depth analysis of the financial accounting aspects of JVs, considering their characteristics, accounting principles, financial reporting, taxation, compliance, and the key considerations from the lenders' perspective.

2. Characteristics of Joint Ventures

Joint ventures are characterized by the following features:

- **Shared Ownership:** The partners contribute equity and have ownership interests in the JV, which may or may not be equally divided.
- **Joint Control:** Each partner typically has an equal say in major decisions, although control rights can vary depending on the agreement.
- **Shared Risk and Rewards:** Both profits and losses are shared based on each partner’s stake in the JV.
- **Defined Purpose and Timeframe:** JVs are often formed for a specific project or goal and may be temporary or for a limited duration.
- **Separate Legal Entity:** Although the partners maintain their own businesses, the JV operates as a separate legal entity with its own financial statements.

3. Accounting Concepts for Joint Ventures

The financial accounting of JVs in Bangladesh follows the standards set by the Bangladesh Financial Reporting Standards (BFRS) and International Financial Reporting Standards (IFRS). There are two primary methods used for accounting joint ventures:

- **Equity Method (For Jointly Controlled Entities):** Under this method, each venturer recognizes its share of the JV's net assets and profits. The investment is initially recorded at cost and subsequently adjusted for changes in the investor's share of net assets.
- **Proportionate Consolidation (For Jointly Controlled Operations or Assets):** This method allows each partner to account for their share of the JV's assets, liabilities, income, and expenses on a line-by-line basis in their own financial statements.

4. Financial Reporting

The financial reporting for JVs must comply with BFRS and align with international standards, ensuring transparency and accuracy. Key aspects include:

- **Consolidated Financial Statements:** Parent companies involved in a JV may be required to present consolidated financial statements that include the JV's financial position and performance.
- **Disclosures:** Full disclosure of the nature of the JV, the basis for accounting, and the share of profits or losses is mandatory.
- **Inter-company Transactions:** Any transactions between the JV and the partners must be properly eliminated in the consolidated statements.

5. Compliance with Laws and Regulations

In Bangladesh, JVs must comply with several key regulations:

- **Companies Act 1994:** JVs structured as companies must adhere to the provisions of the Companies Act, including registration, governance, and compliance requirements.
- **Bangladesh Investment Development Authority (BIDA):** Foreign JVs must comply with the rules of BIDA, which oversees foreign direct investment in Bangladesh.
- **Bangladesh Securities and Exchange Commission (BSEC):** Publicly listed JVs need to comply with BSEC regulations, including those regarding financial disclosures, governance, and reporting standards.

6. Advantages of Joint Ventures

- **Access to Resources:** JVs allow partners to pool their resources, including capital, technology, and expertise, which can be crucial for large-scale projects.
- **Shared Risk:** By distributing the financial burden across partners, the risks associated with the venture are minimized.
- **Market Access:** Local partners in Bangladesh can help foreign investors navigate regulatory environments and access local markets more easily.
- **Synergies:** JVs often create synergies that allow the venture to operate more efficiently than the individual partners could on their own.

7. Disadvantages of Joint Ventures

- **Complex Decision-Making:** Joint control can lead to slow or inefficient decision-making processes, particularly if there are disagreements among the partners.
- **Profit Sharing:** While profit sharing is a benefit, it also means each partner receives a smaller share of the profits compared to a wholly owned subsidiary.
- **Cultural and Operational Differences:** In cross-border JVs, differences in culture, business practices, and legal frameworks can complicate operations.
- **Risk of Disputes:** Conflicts over resource contributions, profit distribution, or strategic direction can lead to disputes among partners.

8. Financial Reporting Issues

Several financial reporting issues arise in the context of JVs:

- **Fair Value Measurement:** The assets and liabilities of the JV need to be recognized at fair value, which can be challenging when valuing intangible assets or when local accounting practices diverge from international standards.
- **Revenue Recognition:** The timing of revenue recognition can differ based on whether the JV is involved in long-term contracts, which often require percentage-of-completion accounting.

9. Lenders' Perspective

From the lenders' perspective, several factors are critical when assessing a JV as a borrower:

- **Creditworthiness of Partners:** Lenders will closely examine the financial strength of each partner involved in the JV, as well as the terms of the agreement, to ensure adequate guarantees or security for loans.
- **Risk Sharing:** While the shared risk is advantageous for the partners, lenders may perceive a JV as riskier because of the potential for partner disputes or failure of one party to meet its obligations.
- **Cash Flow Stability:** Lenders will focus on the JV's ability to generate stable cash flows, particularly if the venture involves long-term infrastructure projects with delayed revenue realization.
- **Debt-to-Equity Ratios:** The JV's capital structure, including the mix of debt and equity, will be scrutinized to ensure that the venture has sufficient equity to support its debt obligations without becoming over-leveraged.
- **Security and Guarantees:** Lenders may require additional security, such as guarantees from the JV partners or liens on the JV's assets, to mitigate the risk of non-performance.

Hindu Undivided Family (HUF)

Introduction

A Hindu Undivided Family (HUF) is a unique legal entity in India and Bangladesh, recognized under both personal and tax laws. It refers to a family that consists of lineal descendants of a common ancestor, along with their wives and unmarried daughters. While predominantly present in Hindu families, the structure is relevant in the financial and tax framework for business ownership and wealth management. This write-up delves into the financial accounting and reporting aspects of an HUF, including its characteristics, accounting practices, advantages and disadvantages, taxation, compliance, and lender perspectives.

Characteristics of HUF

An HUF is defined by its legal and cultural recognition as a distinct entity for holding and managing family wealth. The key characteristics include:

1. **Legal Entity**: HUF is a separate legal entity recognized by tax laws, capable of owning property, entering into contracts, and engaging in financial transactions.

2. **Membership by Birth**: Membership in an HUF is automatic by birth. Sons, daughters, and other lineal descendants of a common ancestor become members. Married daughters cease to be members, but unmarried daughters remain part of the HUF.
3. **Karta Leadership**: The HUF is led by the eldest male member known as the Karta. The Karta manages the family business and assets. His authority is almost absolute, though other members can demand transparency.
4. **Perpetual Succession**: HUF is not dissolved upon the death of the Karta, as leadership passes to the next senior male member.

Accounting Concepts and Financial Reporting for HUF

From an accounting perspective, the HUF is treated as a separate accounting entity distinct from individual members' personal finances. The following are the key accounting concepts applicable to HUF:

1. **Entity Concept**: HUF is a distinct entity and prepares separate financial statements from those of its individual members. All business or financial transactions are accounted for in the HUF’s name.
2. **Going Concern**: Since an HUF enjoys perpetual succession, it is considered a going concern for accounting purposes. The entity's financial reporting assumes the business will continue indefinitely unless a formal partition or dissolution is declared.
3. **Dual Aspect**: Like other business entities, every transaction involving an HUF has two effects — debit and credit — ensuring that the balance sheet remains balanced.
4. **Separate Capital Accounts**: Members' individual contributions or drawings must be separately accounted for. The Karta’s personal wealth should also be distinct from the HUF's assets and liabilities.
5. **Revenue Recognition and Expenses**: The revenue earned by the HUF from its assets, businesses, or investments is recognized following the accrual concept. Similarly, expenses must be recorded in the period they are incurred.

Financial Reporting Standards for HUF

The financial statements of an HUF consist of:

- **Balance Sheet**: Lists the family's assets, liabilities, and capital (including the family property, investments, and business assets). Separate capital accounts for individual members, including the Karta, must be maintained.
- **Income Statement**: Reflects the income earned by the HUF from its property, business, and investments, alongside the expenses incurred in the course of managing these assets.
- **Cash Flow Statement**: A cash flow statement records the inflow and outflow of cash, aiding in assessing liquidity. It is particularly useful for lenders when assessing loan applications.

Advantages of HUF

1. **Tax Benefits**: The ability to file separate tax returns and split income between individual and HUF earnings helps reduce the overall tax burden.
2. **Asset Pooling**: Families can pool resources in an HUF to manage assets, invest, or run family businesses more efficiently.
3. **Wealth Management**: HUF helps maintain continuity in family businesses or property management across generations, ensuring stability.
4. **Succession Planning**: The structure of HUF ensures that wealth is transferred easily to the next generation, avoiding complex legal processes.

Disadvantages of HUF

1. **Control Issues**: The Karta holds disproportionate control, leading to potential conflicts among family members, especially if transparency is lacking.
2. **Limited Liability**: HUF members have joint ownership of family property, which means individual members cannot easily claim their share of the property without a partition.
3. **Tax Implications on Dissolution**: If an HUF is partitioned, there can be tax implications, including potential capital gains tax on distributed assets.
4. **Lack of Flexibility**: Decisions on family wealth management can be cumbersome due to the involvement of multiple family members.

Lenders' Perspective on Dealing with HUF

From a lender's point of view, dealing with an HUF can present unique challenges and opportunities.

1. **Risk Assessment**: Lenders need to assess the financial health of the HUF by reviewing its financial statements and cash flow position. Since HUF members have joint rights to property, securing collateral may require agreement from all adult members.
2. **Creditworthiness of Karta**: As the primary decision-maker, the Karta's financial behavior and creditworthiness are essential for lenders. Karta's ability to manage family businesses and assets will impact loan approval.
3. **Collateral**: Given that HUFs typically hold property, this can be used as collateral. However, lenders need to ensure that there are no disputes or pending partitions that could affect ownership.
4. **Repayment Capacity**: Lenders must consider both the HUF's business revenues and the Karta's personal assets to assess repayment capacity. HUFs with diversified investments, such as real estate and businesses, offer stronger repayment assurances.

Hindu Undivided Families (HUFs) represent a significant legal and financial entity in Bangladesh, especially within Hindu families. From an accounting perspective, HUFs require careful management of financial reporting, compliance, and tax obligations. Lenders must consider the unique structure of HUFs when assessing creditworthiness, particularly regarding the role of the Karta and joint ownership of assets. While the structure offers tax benefits and continuity for family wealth, it also brings challenges related to control, partition, and legal compliance. For expert financial users and lenders, understanding the nuances of HUF is crucial for effective financial planning and decision-making.

Short Questions

1. What is a sole proprietorship in the context of business in Bangladesh?
2. How does the accounting equation apply to sole proprietorships?
3. What is the impact of drawings on the owner's equity in a sole proprietorship?
4. How are profits taxed in a sole proprietorship in Bangladesh?
5. Why is financial transparency important for sole proprietorships when seeking loans?
6. What is the main difference between a partnership and a sole proprietorship in terms of ownership?
7. How does a partnership firm distribute profits among partners?
8. What is unlimited liability in a partnership firm?
9. What financial statements are typically prepared by a partnership firm?
10. What are the main advantages of forming a partnership in Bangladesh?
11. How are partnership firms taxed in Bangladesh?
12. What is the role of the Karta in a Hindu Undivided Family (HUF)?
13. How does the financial reporting of a HUF differ from that of a sole proprietorship?
14. What are the key tax benefits of a HUF in Bangladesh?
15. What is a joint venture, and how is it typically structured?
16. How financial reporting is handled in joint ventures?
17. What are the taxation considerations for joint ventures in Bangladesh?
18. What is the main difference between a private limited and public limited corporation in terms of ownership structure?
19. Why do public limited corporations face higher regulatory scrutiny than private limited corporations?
20. How do lenders assess the creditworthiness of a joint venture?

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About the Author

Dr. Md. Shahid Ullah is an Associate Professor at the Bangladesh Institute of Bank Management (BIBM). With over 20 years of teaching and research experience in banking and finance, he has built a strong academic and professional profile. Before joining BIBM, he served as a faculty member at the University of Science and Technology, Chittagong (USTC), and the Asian University of Bangladesh. He also taught at the University of Sheffield, United Kingdom, **after joining BIBM**, as part of his academic engagement during doctoral studies.

Dr. Ullah holds a PhD in Social and Environmental Accounting, jointly awarded by the University of Sheffield, UK, and Kobe University, Japan. His core areas of expertise include sustainable finance, corporate governance, social and environmental reporting, green banking, and the Sustainable Development Goals (SDGs).

He has published extensively in recognized international journals, focusing on long-term financing, green banking, corporate responsibility, and governance. He also serves as the Associate Editor of *Bank Parikrama – A Journal of Banking and Finance*. Dr. Ullah is the author of two widely used books—*Management Accounting for Bankers* and *Basic Accounting*—both published by the Institute of Bankers, Bangladesh.

Recently, he completed a research-based consultancy titled *'Long-term Financing: A Critical Assessment of the Bond Market in Bangladesh and the Way Forward'* for the Ministry of Finance, Government of Bangladesh. He was also involved as a team member in three consultancy projects conducted during 2021–2023 on sustainable finance and environmental and social risk management (ESRM), commissioned by Bangladesh Bank.

Dr. Ullah has visited several countries, including Australia, Austria, Germany, Hungary, India, Japan, Malaysia, China, Slovakia, Turkey, and the United Kingdom. Google scholar profile of Dr Md. Shahid Ullah: https://scholar.google.com/citations?user=SSnuf4MAAAAJ&hl=en