

**NIGERIAN INSTITUTE OF QUANTITY SURVEYORS**

*WEBINAR SERIES ON ACCOUNTING AND  
FINANCE FOR NON-FINANCIAL MANAGERS*

**INTRODUCTION TO ACCOUNTING  
AND FINANCE BY**

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# INTRODUCTION TO ACCOUNTING AND FINANCE

## LEARNING OUTCOME AND OBJECTIVE

- ▶ At the end of this session, participants should be able to understand the meaning and basic application of accounting and finance

# ACCOUNTING AND FINANCE

- ▶ Accounting focuses on the analysis of information and recording financial transactions. While finance concentrates on the management of money and the funds of a business.

# BOOK KEEPING AND ACCOUNTING

- ▶ Bookkeeping is the process of keeping track of every financial transaction made by a business firm from the opening of the firm to the closing of the firm. Accounting analyzes, reviews, interprets, and reports financial information for the business firm

# ACCOUNTING EXPLAINED

- ▶ Did you know that there are several types of accounts in accounting? You've probably heard about debits and credits, which basically are accounting terminology for the increase or decrease of balances in an account.

# ACCOUNTING EXPLAINED

- ▶ However, you should note that credit or debit could mean either an increase or a decrease, depending on which type of account you're talking about. For example, in asset accounts, debit means an increase, and credit means a decrease, while for liability accounts, it's the other way around. This can get confusing for anyone who is not an accountant.

# ACCOUNTING EXPLAINED

- ▶ Understanding the types of accounts in accounting (along with the so-called golden rule of accounting of how debits and credits work) is an essential step to confidently taking charge of your small business' finances.

# The 5 primary account categories in Book keeping and Accounting

- ▶ **assets,**
- ▶ **liabilities,**
- ▶ **equity,**
- ▶ **expenses, and**
- ▶ **income (revenue)**

# Assets

- ▶ Cash
- ▶ Property
- ▶ Equipment
- ▶ Vehicles
- ▶ Account receivables

# Liabilities

- ▶ Bank Loans
- ▶ Accounts Payable
- ▶ Credit Cards
- ▶ Unearned Revenue
- ▶ Customer Credits

# Equity

- ▶ Owner's Equity
- ▶ Owner's Draw
- ▶ Owner's Contribution
- ▶ Common Stocks
- ▶ Retained Earnings

# Revenue(Income)

- ▶ Sales
- ▶ Royalties
- ▶ Rent
- ▶ Dividend
- ▶ Receipts

# Expenses

- ▶ Wages
- ▶ Rent
- ▶ Phone Bills
- ▶ Utilities

# Asset Accounts

- ▶ Your business's assets are anything that adds value to your brand. They could be things like raw materials or company vehicles. And since you can have both tangible assets and intangible assets, your business's assets can also include company trademarks.

# Intangible Asset

- ▶ An intangible asset is a resource that has no physical presence and has long-term value for a business. Copyright and a company's reputation are considered intangible assets. They have value because a business has sole legal or intellectual rights to them and they can help buy back destroyed tangible assets like equipment

# Here are some common accounts for Asset accounts:

- ▶ Bank Account
- ▶ **Accounts Receivable**
- ▶ Petty Cash
- ▶ **Inventory**
- ▶ Property, Plant, and Equipment

# What Is Accounts Receivable?

- ▶ The balance of money due to a business for goods or services provided or used but not yet paid for by customers is known as Accounts Receivable. These are goods and services delivered by a business on credit to their customer with an understanding that payment will come at a later date.

# Accounts Receivable

- ▶ Some people get confused when they see Accounts Receivable since they don't physically have that money on hand. But because that money is still owed to you, it counts toward your assets.

# What Is Inventory?

- ▶ Inventory is a collection of finished goods or items for manufacture held by a company for business purposes. The company could sell the inventory for profit. That means the products are finished and ready for selling as they are.

# Inventory

- ▶ Alternatively, the company could supply the goods to partner companies for further manufacturing. The products are then transformed or combined to become a different product. It depends on where the company is in the supply chain

# Example:

- ▶ Asset accounts are fairly straightforward. Let's say that you sell N1000 worth of your inventory, money which you then place into your bank account. You would then simply increase (debit side) your bank account by N1000 and decrease (credit side) your Inventory account.

# Example

- ▶ By carefully tracking the transaction into its respective accounts, you'll be able to keep track of all types of intangible and tangible assets—in this case, both your inventory and your revenue.

# Tangible asset

- ▶ **A tangible asset is an asset that has physical substance.** Examples include inventory, a building, rolling stock, manufacturing equipment or machinery, and office furniture. There are two types of tangible assets: inventory and fixed assets.

# Intangible asset

- ▶ An intangible asset is one that is not physical in nature. Since intangible assets have no shape or form, they cannot be held or manipulated. Common types of intangible assets include brands, goodwill, and intellectual property. Businesses have several ways to value these assets, which can be challenging because they have no shape or form. They are in contrast to tangible assets, which have physical forms and can be held.

# Depreciation

- ▶ A reduction in the value of an asset over time, due in particular to wear and tear.
- ▶ "provision should be made for depreciation of fixed assets"

# Amortization

- ▶ Amortization is *an accounting technique used to periodically lower the book value of a loan or an intangible asset over a set period of time*

# Current asset

- ▶ **A current asset—sometimes called a liquid asset—is a short-term asset that a company expects to use up, convert into cash, or sell within one fiscal year or operating cycle**

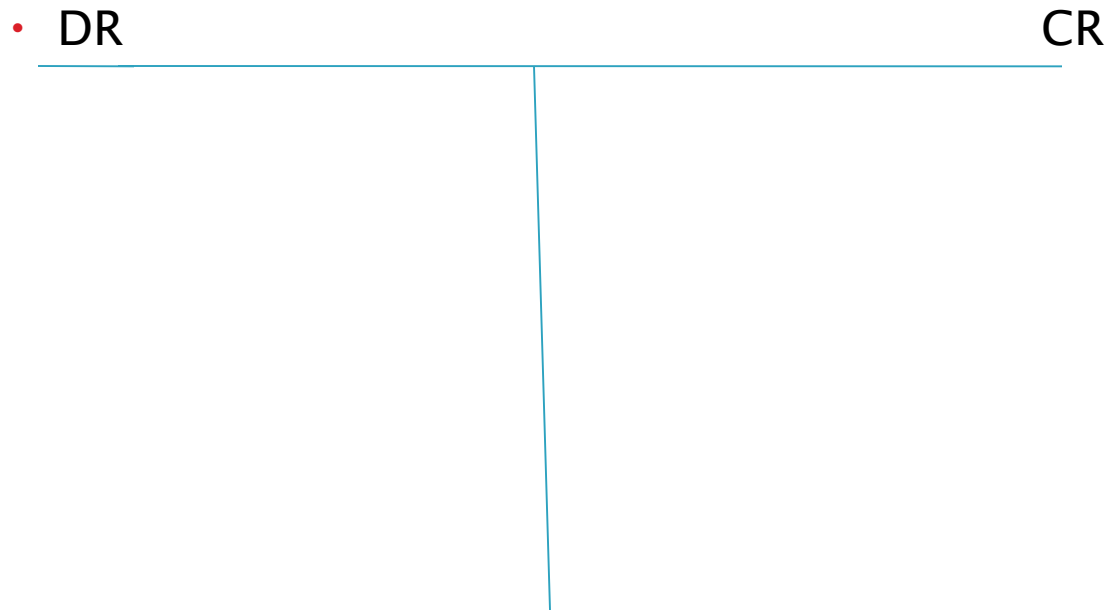
# Non-current assets

- ▶ Non-current assets, on the other hand, are long-term assets that cannot be readily converted into cash within one year

# PRINCIPLE OF DOUBLE ENTRY

- ▶ Every account debited must have a corresponding credit entry

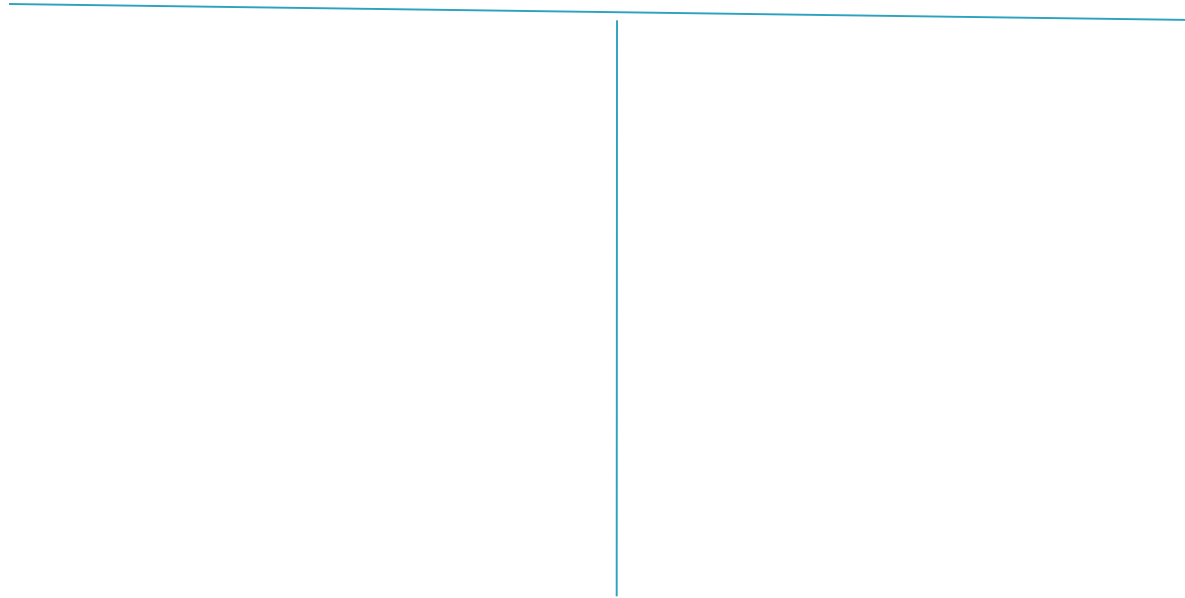
# T-ACCOUNT 1



# T-ACCOUNT 2

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# Liability Accounts

- ▶ Liabilities are anything your company owes out. For example, let's say you needed machinery serviced or repaired. It was a fairly price fix, so the repair company just gave you an invoice. You haven't yet paid for the service, but you owe it. That's a liability

# Liability

- ▶ In other words, Liabilities are a company's financial obligations, like the money a business owes its suppliers, wages payable and loans owing, which can be found on a business's balance sheet

# Here are some common sub-accounts for Liability accounts:

- ▶ Collected Sales Tax
- ▶ Accounts Payable
- ▶ Income Tax
- ▶ Payroll Tax

# Accounts Payable

- ▶ Accounts Payable consists of items you still have yet to pay. Therefore, you would put that account under the Liabilities umbrella
- ▶ When a company purchases goods and services from a supplier or creditor on credit that needs to be paid back quickly. The accounting entry to record this transaction is known as Accounts Payable (AP).

# Example

- ▶ A common instance of such accounts would be if your business was to purchase N1000 of new inventory from another business entity on credit, rather than with your own money, as a business transaction. This would result in a credit to your Accounts Payable account (since you now owe more money) and a debit to your Inventory account (since your inventory has increased).

# Equity Sub-Accounts

- ▶ Equity refers to your company's overall worth. What's more, it's the difference between the separate accounts of your assets and liabilities

# Equity Sub-Accounts

- ▶ Equity in accounting is the remaining value of an owner's interest in a company after subtracting all liabilities from total assets. Said another way, it's the amount the owner or shareholders would get back if the business paid off all its debt and liquidated all its assets.

# Equity Sub-Accounts

- ▶ You may hear of equity in accounting being referred to as stockholders' equity (for a corporation) or owner's equity (for sole proprietorships and partnerships).

# Here are some common accounts for Equity accounts:

- ▶ Retained Earnings
- ▶ Owner's Equity
- ▶ Common Stock
- ▶ Your company's Equity accounts will increase when there is an investment or funding into your business and decrease when there is a loss or an owner's draw occurs.

# Illustration

- ▶ You may already be familiar with the term equity as it applies to personal finances. For instance, if someone owns a N400,000 home with a N150,000 mortgage on it, then the homeowner has N250,000 in equity in the property.
- ▶ It's the same general concept in business—it's what owners (or partners or shareholders) *own* after subtracting what they *owe*

# Example:

- ▶ Equity accounts come into play for stocks and dividends. If investors invest N1000 in your company, you would credit Owner's Equity or Common Stock account and debit your Cash account to reflect the transaction properly.

# Expense Accounts and Sub-Accounts

- ▶ Your company's expenses are anything you purchase to run your business. When you buy fuel for your company vehicle or stock up on office supplies, those purchases are considered company expenses and you need accounts involved in that.

# Here are some common sub-accounts for Expense accounts:

- ▶ COGS (Cost of Goods Sold)
- ▶ Insurance Expenses
- ▶ Vehicle Expenses (Account)
  - Mileage (Sub-account)
  - Repairs and maintenance (Sub-account)
- ▶ Payroll Expenses or salary accounts
- ▶ Salary Expenses
- ▶ Rent
- ▶ Office Expenses

# What Is Cost of Goods Sold (COGS) and How to Calculate It

- ▶ Cost of Goods Sold (COGS) is the cost of a product to a distributor, manufacturer or retailer. Sales revenue minus cost of goods sold is a business's gross profit. Cost of goods sold is considered an expense in accounting and it can be found on a financial report called an income statement.

# Formula?

- ▶ Cost of goods sold is calculated using the following formula:
- ▶  $(\text{Beginning Inventory} + \text{Cost of Goods}) - \text{Ending Inventory} = \text{Cost of Goods Sold}$
- ▶ At the beginning of the year, the beginning inventory is the value of inventory, which is actually the end of the previous year. Cost of goods is the cost of any items bought or made over the course of the year. Ending inventory is the value of inventory at the end of the year.

# What Is Inventory Management?

- ▶ **Inventory management refers to the process of ordering, storing, using, and selling a company's inventory. This includes the management of raw materials, components, and finished products, as well as warehousing and processing of such items**

# What is FIFO and LIFO with examples?

- ▶ FIFO (“First–In, First–Out”) assumes that the oldest products in a company's inventory have been sold first and goes by those production costs. The LIFO (“Last–In, First–Out”) method assumes that the most recent products in a company's inventory have been sold first and uses those costs instead

# Which method is best for inventory valuation?

- ▶ FIFO is the most commonly used inventory valuation method. FIFO normally results in higher gross profits because the cost of acquiring inventory typically rises over time. This keeps your COGS lower and creates a healthier income statement

# Other Items Included in Cost of Good Sold?

- ▶ The items that make up costs of goods sold include:
  - ▶ Cost of items intended for resale
  - ▶ Cost of raw materials
  - ▶ Cost of parts used to make a product
  - ▶ Direct labor costs

# Other Items Included in Cost of Good Sold?

- ▶ Supplies used in either making or selling the product
- ▶ Overhead costs, like utilities for the manufacturing site
- ▶ Shipping or freight in costs Indirect costs, like distribution or sales force costs
- ▶ Container costs

# Expenses

- ▶ Expense accounts are increased when money is spent to run your day-to-day business activities. Any time your business spends money, your expense accounts increase.

# Example:

- ▶ An example of an Expense account would be a typical business expense, such as your rent payment on a physical business location. If you pay N1000 in rent from your Subscription account, you would then credit your Subscription account and debit your Expense sub-account, in this case, a rent Expense account.

# Expenses

- ▶ With FreshBooks expense tracking software, companies can create and categorize expenses, monitor spending, and generate reports to stay on top of their finances. This can help businesses make informed financial decisions and keep on top of their expenses.

# Administrative expenses

- ▶ Administrative expenses are expenses an organization incurs that are not directly tied to a specific core function such as manufacturing, production, or sales. These overhead expenses are related to the organization as a whole, as opposed to individual departments or business units.
- ▶ Administrative expenses are costs that relate to regular business operations. Administrative expenses can be fixed or semi-variable. Common examples include rent, utilities, equipment, supplies, insurance policies, salaries, benefits and legal counsel.

# Operating expenses

- ▶ Operating expenses are necessary costs to build a product or create services that a small business sells to a customer. In contrast, administrative expenses are costs spent to keep the small business running efficiently.
- ▶ Operating expenses are costs expended by a small company by each of its different departments to produce a product or services for customers. Examples of these departments include manufacturing, advertising and sales

# capital expenditure

- ▶ Money spent by a business or organization on acquiring or maintaining fixed assets, such as land, buildings, and equipment.

# Revenue Accounts and Sub-Accounts

- ▶ Revenue is your company's earnings. Moreover, anything that brings in money for any reason is tracked under Revenue accounts.
- ▶ Here are some common Revenue accounts and sub-accounts:
  - ▶ Earned Interest
  - ▶ Product Sales (Account)
  - ▶ Website Sales (Sub-account)
  - ▶ Store Sales (Sub-account)
  - ▶ Wholesale (Sub-account)
  - ▶ Income

# Revenue

- ▶ Revenue accounts are critical to any business, and ensuring you are tracking your transactions accurately will give you real-time information on how your business is growing.
- ▶ Revenue is one of the most important things to consider when running a business, especially when it comes to your income taxes and tax credits.

# Revenue

- ▶ Without commercial revenue, your business is doomed to fail. That's why you must have a good understanding of what exactly it is.
- ▶ So what is revenue?
- ▶ Revenue is the value of all sales of goods and services.
- ▶ Revenue minus operating expenses is what's known as operating income.
- ▶ It is a calculation of periodic income.
- ▶ A non-operating income is a nonrecurring or infrequent income that comes from secondary sources.

# Example:

- ▶ Revenue accounts are used to track your business' income from sales and other sources. If a customer pays you N1 000 for your services via credit, you would log the transaction in the following manner: increase your Revenue account with a credit and likewise increase your Accounts Receivable account with a debit.

# What Is Accrued Revenue?

- ▶ Accrued revenue is the term given to revenue that is earned by a company. This is specifically for the successful delivery of goods or services that haven't yet been paid for by the customer. In accrual accounting, when a sales transaction takes place, it is reported as revenue. This doesn't necessarily always represent a physical payment.

# What Is Deferred Revenue?

- ▶ Deferred revenue is also known as unearned revenue. It is essentially the opposite of accrued revenue. Meaning that it accounts for money prepaid by a customer for any good or service that has yet to be delivered.

# What Is Deferred Revenue?

- ▶ Any company that has received a prepayment, can recognize the revenue as unearned. However, they would not recognize the revenue on their income statement. This would be recognized when the goods or services are delivered to the customer.

# Does Positive Revenue Always Mean Positive Profit?

- ▶ No, it does not. A company can actually have a positive revenue whilst having a negative profit. This is because companies have a cost to produce goods, as well as other fixed costs such as taxes and interest payments on loans. This means that if a company's total costs exceed its revenues, the company will have to take a negative profit. Even though they may be taking in a large sum of money from sales.

# The Difference Between Revenue and Cash Flow

- ▶ Revenue is the money that a business earns from selling products or services. However, cash flow is the net amount of cash that is being transferred in and out of the business.
- ▶ Looking at a business's revenue gives you a measure of how effective the company's sales and marketing efforts are. Cash flow is a good indicator of a business's liquidity. To get a comprehensive review of the financial health of a company, it's important to take both cash flow and revenue into account.

# Summary

- ▶ As a small business owner, your revenue is your lifeblood. That's why it's imperative that you have a full and detailed understanding of exactly what it is and what fuels your income growth. By keeping a close eye on your revenue, you can take steps to ensure the future financial health and therefore the success of your business.

# TYPES OF ACCOUNTING

- ▶ The 3 types of accounting include **cost, managerial, and financial accounting**. Although 3 methods of accounting are both vital to the healthy functioning of a business, they have different meanings and accomplish different goals.

# Conclusion

- ▶ Now that you know how accounts and sub-accounts work, you can make the necessary adjustments to your company's bookkeeping. In doing so, you can effectively record and monitor to reduce unnecessary spending, increase revenue, and meet financial goals.

# Conclusion

- ▶ Having a strong, working understanding of the different types of accounts in accounting is the best and only way to ensure a smooth accounting system for your business. Once you understand individual accounts (not to be confused with personal accounts) and how they work together as a whole, you'll be able to manage your finances more easily and ensure a well-organized system for the future.

THANK YOU FOR YOUR ATTENTION



# Do You Have Any Questions?



We would be happy to help.



# SYNDICATE SESSION

Group discussions / Interactions

**Proposal for new reforms strategies to challenge human interference in the implementations processes.**