

Fundamentals of Accounting from Oracle Perspective

Sivakumar Ganesan

ACA, AICWA, PMP, PDIM

Accounting is so Simple

- Do not become panic or do not curse the Accountants without realizing the Importance of Accountancy.
- No Business Manager can be successful in this world if they do Not have basic understanding of the concept of Accountancy like Asset, Liability, Expense and Revenue
- Look at Accounting in the above context then it is easy to understand rather than looking at debit or credit
- It is not a Science or Art but Accountancy has evolved out of Proven practice, Established Standards and Professional Bodies Management

What is Accounting

- Accounting is the art of recording, classifying and Summarizing financial transactions in the Preparation of Financial Statements
 - Recording refers to creating Journal entry for every financial transaction with Debit and Credit amounts.
 - Classifying refers to Classifying each of the Debit / Credit Transaction to Capital or Revenue and Asset, Liability, Revenue or Expense
 - Summarizing refers to Grouping the Transactions of asset, Liability, Revenue and Expenses and preparing the Financial Statements (Trading, Profit and Loss Account and Balance Sheet)
 - In case of
 - Trading, Manufacturing and Customer Service oriented Organization, the sum of all income and expenses is referred to as Profit and Loss account
 - Social Service oriented Organization like Schools, Hospitals and Government Organizations, Banks it is referred to as Income and Expenditure account .

Note:- Trial Balance is not a Financial Statement. It is only a summary of all Debit and Credit Transactions.

Understanding Accountancy with Simple Example

- Your Employer (Oracle) Pays Salary 3000 USD at the End of every month to you (Siva) and credit the amount into your Bank Account (Bank of America - BOA)
 - How Many Set of Books, Legal Entity and Business Groups are involved in the above one transaction from Oracle Perspective
- If you know the answer for the above you are 50% Qualified to be an Accountant

Understand the concept of Entity

- An Entity is a Business Unit which can be Individual, Body Corporate (Company) or a Partnership Firm
- A Company is Separate entity from the Members (Shareholders) and Directors (who are also members of a Company) act like an agent to manage the Company

Are You ready with the answer now?. Check it out

Answer

- Three Set of Books and Three Legal Entities are involved
 - One Individual (Yourself) - Siva
 - Your Company (Body Corporate or Company) - Oracle
 - Your Bank (Banking company) – Bank of America (BOA)
 - Two Business Groups (Oracle and Bank of America)

Now Comes the Question Who Maintains What Account?

Who Maintains What Account

- You (Siva) Maintain Your Bank Account (BOA) and You may maintain your Company Account (Oracle)
- Your Employer Company (Oracle) may have the Employee Account (Siva Account) and must have the Bank Account (BOA Account)
- The Bank will maintain both your account (Siva Account) and your Employer Account (Oracle Account)

What Sort of Transaction it is?

- Receipt of Salary is a Revenue or Expense for you? (Obviously I hope You will say it is a Revenue)
- Payment of Salary is a Revenue or Expense for your Company? (I hope again you are right it is an Expense for the Company)
- Receipt of Money from your Employer is a Revenue or Expense for Bank?
 - ah! ah! ah! – I hope here only you will get stuck start cursing accountancy. Am I right?

What Sort of Transaction it is

- For the Bank both Employer and Employee are two different customers and bank act like a mediator for both of you. Hence in this transaction there is no revenue or expense for bank

In Your (Siva) Set of Books

Accounting Entry

Dr Bank Account 3000 (Bank Receiving Money on behalf of you)

Cr Salary Account 3000 (Salary is an income / Revenue for Siva)

Salary Account

Bank Account (BOA)

Dr	Amt	Cr	Amt
		31/05/07	
		By Bank	3000
		(Your Revenue earned for the current month)	

Dr	Amt	Cr	Amt
		31/05/07	
		To Revenue	
		(Salary)	3000
		(Your Asset lying in Bank account)	

In Your Company (Oracle) Set of Books

Accounting Entry

Dr Salary Account 3000 (Salary is an Expense for Oracle)
Cr Bank Account 3000 (Bank is paying on behalf of Oracle to Siva)

Salary Expense Account

Dr	Amt	Cr	Amt
31/05/07			
To Bank	3000		
(Your Company salary Expense paid for the current month)			

Bank Account (BOA)

Dr	Amt	Cr	Amt
		31/05/07	
		By Salary Expense	
			3000
		(Your Company Bank Balance Reduction in Bank)	

In Bank Set of Books

Accounting Entry

Dr Oracle Account 3000 (Reduction in Oracle Bank Balance)
 Cr Siva Account 3000 (Increase in Siva Bank Account Balance)

Siva Account (your A/c)

Oracle Account (Your Co A/c)

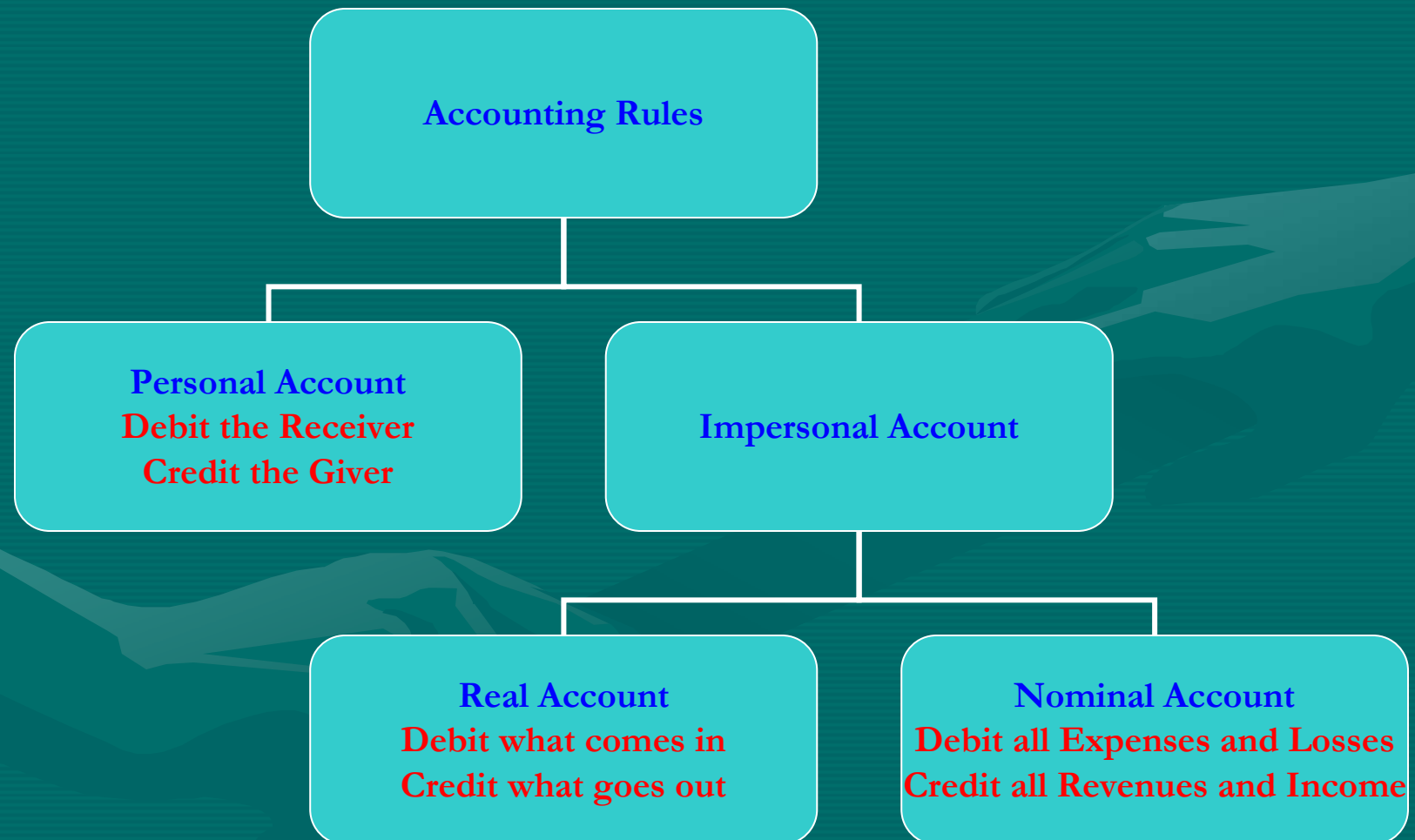
Dr	Amt	Cr	Amt
		31/05/07	
		By Oracle (Your Co A/c)	3000
		(Addition of Bank Balance from your Company to Your Account)	

Dr	Amt	Cr	Amt
31/05/07			
To Siva Account Your A/c)	3000		
(Reduction of Bank Balance of your Company in their Account)			

Classification of Accounts

- **Asset:** Properties and Investments which can be converted / Convertible to Cash (Balance Sheet Item)
- **Liability:** Amount Payable to Owners (Providers of Capital) and Creditors (Supplier of Material or Loan) (Balance Sheet Item)
- **Revenue / Income:** Amount Earned through Sales or any other Mode (Profit and Loss Item or Income and Expenditure Item)
- **Expenses:** Amount incurred / spent or expensed to earn the income. (Profit and Loss Item or Income and Expenditure Item)

Remember the Golden Rule



Summary

- Do not Memorize the Accounting Rules.
- If you could understand this simple Logic, We can Proceed to Advanced Level (Level II)
- Understand the Accounting Concepts and then apply the Accounting Rules.
- I have not covered Accounting Concepts in this presentation, but if you feel this helps, I will prepare Level II and make it more simple for you to understand the Fundamentals of Accounting.

THANK
YOU

Hope you Like this Presentation and
interested to Learn Level II

Email:

sivakumar3009@gmail.com