Key Terms:

Accounting: Process of recording transactions in systematic and scientific manner.
Assets: Properties owned by the companies. Shareholders own the company and the assets of the company are owned by the company. Assets have the capability to generate future income.
Audit: Process of checking the books of accounts to test the true and fairness. Audit is undertaken by a qualified chartered accountant. Auditors are under the obligation to report to the shareholders.
Company: A company is an association of persons formed for some common purpose and each person contribute money or money's worth to the common stock. Companies are governed by the Companies Act 1956. Contributors of capital are called shareholders. Shareholders are the owners of a company.
Shareholders: owners of a company are called the shareholders. Shareholders contribute money to the company and such money is called share capital.
Society: An association of seven or more persons for any literary, scientific, or any charitable purpose and registered under the Societies Registration Act 1860.

Liabilities: Olbligations of a company. Liability is the money due to the outsiders. Liabilities arise due to the acquisition of assets or availing services.
Financial statements: End product of the financial accounting. Balance sheet, income statement, and cash flow statements are the statutory financial statements of a company.
Income Statement: Statement of expenses and income of a company. It shows the net profits of a company for a particular period. Income statement shows gross profit, profit before interest and tax (PBIT), and profit after tax (PAT).
Limited Liability: The owners of the company are not personally liable for the debts of the company. The liability of the shareholders is limited to the extent of the money contributed by them.
Perpetual Succession: Shareholders may come and shareholders may go, the company continues to exist with the same privileges. A company can continue to exist indefinitely till it is wound-up in accordance with the provisions of the Companies Act.

Private limited company: A company which has a minimum paid-up capital of one lakh rupees or such higher paid-up capital as may be prescribed, and by its articles, restricts the right to transfer its shares, if any and limits the number of its members to fifty.

Public limited company: A company which is not a private company and has a minimum paid-up capital of Rs. 5 lakhs.

Government company : A company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary of a Government company.

Holding Company: A company is known as the holding company of another company if it has control over that other company. A company is deemed to the holding company of another if, that other company is its subsidiary.

Subsidiary Company: Altd shall be deemed to be a subsidiary of another (B ltd) if, but only if,

- B ltd controls the composition of its Board of directors ; or
- B ltd. holds more than half in nominal value of its equity share capital
- A ltd is a subsidiary of another company (say C ltd) which is the subsidiary of B ltd

A foreign company: A company not registered under the Companies Act 1956. It is one which is incorporated outside India but having a place of business in India.

Financing decisions: Every company requires money to start and run the business. Money is required to acquire the assets and meet the day-to-day expenses. Such funds can be raised through capital, loans, bonds, debentures. Raising money and all the related decisions are called the financing decisions

Shareholders fund: Is the money contributed by the owners and the money generated by the company. It is also called equity or networth. Shareholders fund is the summation of the capital and accumulated profit.

Investing decisions: Investment activities are the acquisition and disposal of assets owned by a company. Such activities are the results of investment decisions.

Operating decisions: Op erating activities are the main activities through which a company generate revenue and in the process earn profit. After raising the money (for stockholders and loan givers) and investing the same in the productive assets, the business is ready to start its operations. The operating activities depend on the core competence of the company.

Financial statements: The output of financial accounting is a set of financial statements that are distributed among the various stakeholders, both insiders and outsiders. These statements show the financial performance of a company

Balance Sheet

A balance sheet shows the sources and uses of all resources of a company on a particular date. In other words, it shows the sources (capital, profit, and debt) and the corresponding assets as on a particular date.

Income Statement

An income statement shows the sales and expenses incurred by a company during a particular period. Excess of sales and other incomes over the expense is called profit.

Cash Flow Statement

Cash flow statement show the cash inflows and cash outflows from different decisions taken by a company. It shows cash from financing decisions, cash from investment decisions and cash from operating decisions.

Annual report

Typically the Annual Report of a Company contains the following:

- Chairman’s statement (optional and not a legal requirement)
- Director’s Report
- Auditor’s Report
- Profit & Loss Account for the period
- Balance Sheet

Interim period:

Financial reporting period shorter than a full financial year; and

Interim financial report:

A financial report containing either a complete set of financial statements or a set of condensed financial statements (as described in this Statement) for an interim period