



PRIFYSGOL CYMRU

Y Drindod Dewi Sant

UNIVERSITY OF WALES

Trinity Saint David

LCBB4001 – Accounting fundamentals

2020/21

Assignment Title: Essay on Accounting fundamentals

Module Lecturer: Ernest Ovia

Submitted by:

Mihail Pasat

Student no: 2028167

Contents

Requirement (1.a)	3
Requirement (1.b)	4
Requirement (1.c).....	5
Requirement 2	7
References	10

Task 2

Requirement (1.a)

SL no.	Accounts name	Debit	Credit
2	Depreciation expense	5,760.00	
	Accumulated depreciation-Plant and Machinery		5,760.00
3	Advance Rates	650	
	Rates expense		650
4	Bad debt expense	1500	
	Allowance for doubtful debts		1500
5	Allowance for doubtful debts	925.00	
	Trade receivable		925.00
6	Drawings	750	
	Bank		750

Notes:

Depreciation	Amount
Plant and Machinery (at cost)	60,000.00
(-) Accumulated depreciation	(12,000.00)
	<u>48,000.00</u>
Current year depreciation [48,000*12%]	5,760.00

Allowance for doubtful debts	Amount
Trade receivables	20,000.00
(-) Bad debt	(1,500.00)
	<u>18,500.00</u>
Allowance for doubtful debts (18,500 * 5%)	925.00

Requirement (1.b)

Michael;s

Trial Balance

For the year ended 31st December 2019

SL no.	Accounts name	Debit	Credit
1	Retained earnings as at 01/01/2019		10,100.00
2	Computers	14,600.00	
3	Accumulated depreciation - Computers at 01/01/2019		5,000.00
4	Plant & Machinery	60,000.00	
5	Accumulated depreciation – Plant & Machinery at 31/12/2019		17,760.00
6	Depreciation expense-Plant and machinery	5,760.00	
7	Inventory at 01/01/2017	30,000.00	
8	Trade receivables	19,075.00	
9	Allowance for doubtful debts 31/12/2019		2,175.00
10	Bad debt expense	1,500.00	
11	Cash in hand	100.00	
12	Cash at bank	1,750.00	
13	Trade payables		36,000.00
14	Capital		28,000.00
15	Drawings	10,250.00	
16	Purchases	160,000.00	
17	Revenue		240,000.00
18	Wages	24,000.00	
19	Advertising	8,000.00	
20	Rates	2,950.00	

21	Advance rates	650.00	
22	Bank charges	400.00	
		339,035.00	339,035.00

Requirement (1.c)

Michael's		
Statement of profit or loss		
for the period 1 January 2019 to 31 December 2019		
Sales (Less return outward)		£240,000.00
Less cost of Sales:		
Opening inventory	£30,000.00	
+ Purchases (+ carriage inwards - returns outward)	£160,000.00	
- Closing inventory	£30,000.00	
		<u>(£160,000.00)</u>
Gross Profit		£80,000.00
Add other Income		<u>£0.00</u>
Total Income		£80,000.00
<u>Expenses</u>		
Accounting fees	£0.00	
Advertising	£8,000.00	
Bank Charges	£400.00	
Depreciation	£5,760.00	
Hire of Equipment	£0.00	
Bad debt	£1,500.00	
Interest	£0.00	
Motor Vehicle expenses	£0.00	
Office Supplies	£0.00	
Postage & Printing	£0.00	
Rates	£2,950.00	
Repairs & Maintenance	£0.00	

Stationery	£0.00	
Subscriptions	£0.00	
Telephone	£0.00	
Training / Seminars	£0.00	
Wages & Salaries	£24,000.00	
Total Expenses		<u>(£52,860.00)</u>
Net Profit / (Loss)		<u>£37,390.00</u>

Statement of Financial Position as at 31st December 2019	
	£
Assets	
Non-current assets	
Computers	9600
Plant and Machinery	42,240
Current assets:	
Inventories	30,000
Trade and other receivables	16,900
Advance rates	650
Bank	100
Cash and cash equivalents	1,750
Total assets	101,240
Capital & Liabilities	
Capital	28,000
Retained earnings as at 01/01/2019	10,100.00
Profit for the period	37,390
Drawings	(10,250)
	65,240
Non-current liabilities:	
Bank loans	0
Current liabilities:	
Bank loans and overdrafts	0
Accruals	0
Trade payables	36,000

Total capital and liabilities	101,240
-------------------------------	---------

Requirement 2

Financial Statements are the snapshots of overall financial conditions of the organization (Hand, 2015). Though a normal person or non-business study background person may raise concern about why financial statements? There are some other ways or information from there they can know the relevant information. But only businesspeople can understand those all information comes from these financial statements. Because, financial statements are the summary of all transactions of the organization and we know that the transactions are the raw population of an organization's financial health. And financial statements are the sufficient appropriate summary for those raw population. All the relevant information is drawn from these statements. Shareholders need these sufficient appropriate evidences to make them informed so that they can take appropriate equity investment decision and also can analysis the organization's financial health without any help (Francis and Schipper, 2019)

Every Stock Exchange Commission has the requirement to report the financial statements on quarter on annual basis. The SEC has made this compulsory as the financial statements can provide the true picture of the company and the investors can make their decision on the basis of those statements (Dimitropoulos and Asteriou, 2019). SEC is basically the monitoring and the controlling authority of the share market. They have made some guidelines on issuing financial reports so that the potential investors can properly analyze and compare their findings from company to company. All financial reports are prepared with current year and previous year information and while comparing the information, almost all companies take the previous information as the base of the information.

At the starting of the report, there will be some important financial information will be found in a summary pattern. In that portion, almost five years information has been compared so that this particular information can be comparable with any company with any of the financial year.

Financial Statements are important and relevant information to many of the individuals:

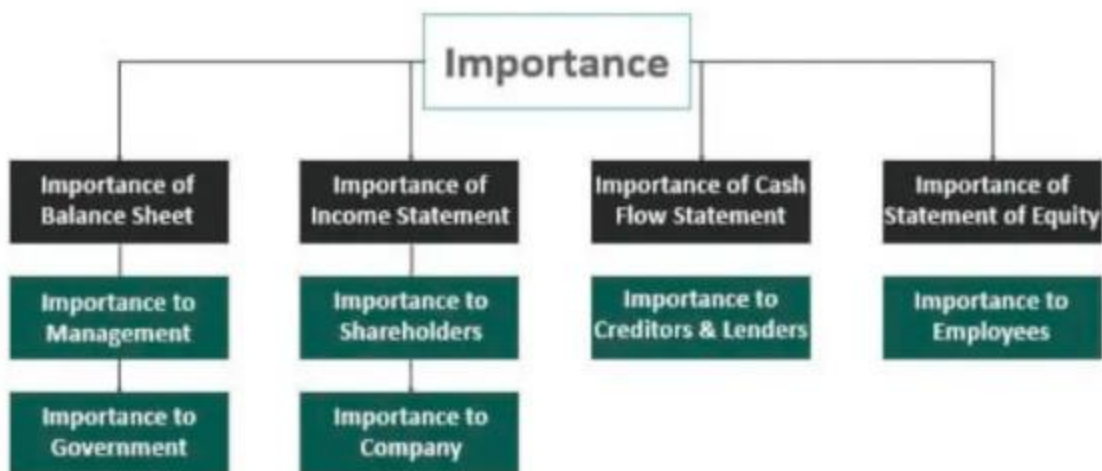


Figure 1: List of users (Nyabundi, 2020)

The statements are relevant to the mentioned individuals and sectors because of the following information only can be get or extracted from financial statements:

Asset and Liability: Total asset and total liability are the information related to the financial health. And this information only can be got from the statement of financial position. This information is relevant to the work of management and the analyst. Because management needs to identify the organization's strength and weaknesses and on the other hand analyst needs the information for analyzing the financial condition of the organization.

Financial Performance: Future return depends on the good financial performance of the organization. When a company has a increasing profit over the five years, it can be concluded that the company is doing better performance within the industry. For example, during this COVID situation many companies has closed, or many companies are near to be shut down. While other company is still earning profit and these companies are recognized as good performer within the industry. Profit is one of the best measures of financial performance and this can be got from Statement of Profit and Loss.

Net Cash flow: The information of cash flow is a most important and relevant information for the creditors and lenders. Because when a company has enough flow of cash it is indicating that the company is able to pay the debts also continuous flow of cash is indication of going concern (Nyabundi, 2020). And this information can be extracted appropriately only though Statement of cash flow.

Equity: Employees want to know about the condition of the company. Unlike other stakeholders, they are working inside the company. So, they want to know more information about the company's condition. And the depth condition of the company can only be got from the Statement of Equity.

Profitability ratios: Analysts are not just ended up with knowing information related to asset or expense or a single information. They want to dig down and because of this they need more information. While identifying or measuring a company's profitability, analysts compare at least five years information and then compare this information within the same industry with the standard ratio (Dimitropoulos and Asteriou, 2019). All this information can be got from Statement of financial position and Statement of profit and loss.

Liquidity ratio: Liquidity ratio is calculated to find out the ability of an organization of paying out all of its debt. It can provide a close snap regarding the ability of the organization. Liquidity related relevant information is provided through Balance sheet and Cash flow statement. This ratio includes current ratio where relevant information current asset and current liabilities, Acid ratio requires most liquid assets and current assets etc. (Johnson, 2015).

Efficiency ratio: This ratio indicates the efficiency of the organization. Not all investors just want an organization with high profit or turnover they also want a long-term security from the organization which can be provided by those companies which is efficient in using capital. Inventory turnover, valuation ration, dividend yield are the efficient ratios (Hung, 2018). If any investors want to measure the efficiency, he or she needs to calculate this ratio and they only can get the relevant information from the financial statements.

Except the mentioned information, investors, analyst or other stakeholders may need other different information. They can calculate their required information through using the information from financial statements. If we can assume that ratios are the research than financial statements can be the population for the stakeholders and they can pick any sample unit from that population and can give them any shape of desired information and then can compare with other companies.

References

- Hand, J.R., 2015. The value relevance of financial statements in the venture capital market. *The Accounting Review*, 80(2), pp.613-648.
- Francis, J. and Schipper, K., 2019. Have financial statements lost their relevance?. *Journal of accounting Research*, 37(2), pp.319-352.
- Hung, M., 2018. Accounting standards and value relevance of financial statements: An international analysis. *Journal of accounting and economics*, 30(3), pp.401-420.
- Johnson, L.T., 2015. Relevance and reliability. *The FASB report*, 2.
- Dimitropoulos, P.E. and Asteriou, D., 2019. The value relevance of financial statements and their impact on stock prices. *Managerial Auditing Journal*.
- Nyabundi, M.A., 2020. Value relevance of Financial Statements Information: Evidence from listed firms in Kenya. *Advances in management and Applied Economics*, 3(1), p.115.