

ACCOUNTING FUNDAMENTALS

Student name: Maria Taleva

Student ID: 1812411

Lecturer Name: Gazi Arif

Date: 27/08/2019

Module Name: LCBB4001

1 Introduction

Business expenditure can be revenue based or capital. It is necessary to identify the differences for preparing the right accounts. Capital expenses generally include all the expenditure required for the development of the firms and the machineries. It is important to keep an account of all the expenditures related to a big project for the ease of calculation of revenue costs that is in conjunction (Lansdellrose, 2019). This assignment will justify the basic differences between capital expenditure and revenue expenditure along with some relevant examples from each subject.

2 Definitions

Capital expenditure refers to all those funds that are utilized by an organization for the development and maintenance of company assets that will benefit the company. Capital expenditure can be long term or short term. Long term expenditure means investment on fixed assets like lands or properties for the expansion of the business. Short term expenditure means purchase of material things like new machineries, software, equipments or patents. Capital expenditure is done to meet two purposes, for the maintenance of the operations in the company and to enable future growth. As soon as an organization incurs some profit from the business, it uses the money to generate revenue for further expenses. Revenue expenditure is charged based on the profit. A company generates revenue expenditure in order to maintain the assets that have been bought to support the operations of the business. Revenue expenditure also includes every day expenses related to operate a business.

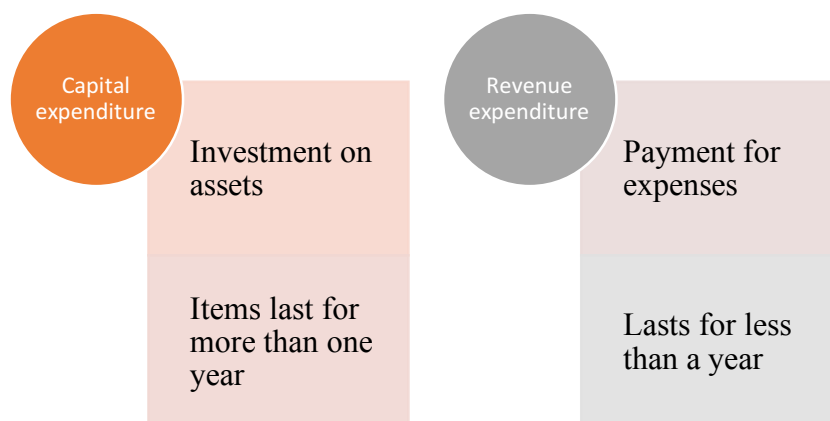


Figure 1: Difference between capital and revenue expenditure

(Source: Jakovljevic *et al.* 2017)

3 Discussions

Capital expenditure is associated with acquisition of assets while revenue expenditure can be referred to as everyday expenses for running an organization (IFRS, 2019). An organization must be able to keep records of all the yearly expenditures in order to identify which one was capital expenditure and which one was revenue expenditure. It helps in computing tax returns. IAS regulations state that capital expenditure cannot be considered while calculating taxable profits (GOV.UK, 2019). However the company can ask for capital allowances. Jakovljevic *et al.* (2017) has specifically taken example from beverage industry in order to explain revenue costs. Due to strict tax policies of government on alcohol manufacturers the annual revenue expenses increased significantly in European nations. Dargenidou *et al.* (2019) has mentioned that the investors were ambiguous about investing on capital revenues after IFRS suggested new guidelines in terms of bringing profit to the firm. **[Refer to appendix 1]**

4 Conclusions

Capital expenditure is associated with the generation of revenue. It is essential to distinguish between the both in order to calculate the tax allowances at the end of a financial year. A company must keep all the financial records to compute the taxable profit that is generated due to revenue expenses. Right records will help the organization to gain more benefit with respect to paying taxes to the government. Revenue expenditure can be used to compute the profit that is included in the taxes but capital expenditure is not deductible. An organization can ask for allowances from the government in order to stabilize the business capital that will help in running the business successfully.

Task 1

Ledger accounts:

Cash Account

Dr			
Date	Description	Amount	Date
05-Apr	Capital	£300.00	07-A
08-Apr	Loan from Tatiana	£250.00	15-A
20-Apr	Sold goods	£350.00	28-A
			29-A
			30-A
		900	
		240	
Balancing figure c/d			

Purchase goods

Dr			
Date	Description	Amount	Date
7 April	Cash	£200.00	

Motor Van

Dr			
Date	Description	Amount	Date
15-Apr	Cash	£150.00	

Rent

Dr			
Date	Description	Amount	Date
28-Apr	Cash	£50.00	

Capital

Dr			
Date	Description	Amount	Date
30-Apr	Cash	£60.00	05-A

Loan from Tatiana

Dr			
Date	Description	Amount	Date
29-Apr	cash	200	08-A
			Balanci

Sales

Dr			
Date	Description	Amount	Date
			20-A

Drawing

Dr			
Date	Description	Amount	Date
30-Apr	Cash	£60.00	

Journal keeps record of all transactions in chronological order and shows information about account names , amounts, debit or credit side.

Journal entries in the Books of Maxim

date	Description	Dr			
05-Apr	Cash			£300.00	
	Capital				£300.
	(Introduce cash into the business)				
07-Apr	Purchase			£200.00	
	Cash				£200.
	(Purchase goods)				
08-Apr	Cash			£250.00	
	Loan from Tatiana				£250.
	(Loan from Tatiana repayable within twelve months)				
15-Apr	Motor van			£150.00	

	Cash				£150.
	(Purchased a motor van)				
20-Apr	Cash			£350.00	
	Sales				£350.
	(Sold goods)				
28-Apr	Rent account			£50.00	
	Cash				£50.
	(Paid rent)				
29-Apr	Loan from Tatiana			£200.00	
	Cash				£200.
	(repaid part of the loan)				
30-Apr	Withdraw			£60.00	
	Cash				£60.
	(Drew cash from the business)				
30-Apr				1560	15

A trial balance is a list of all the general ledger accounts contained in the ledger of the business.

For each debit entry, there is a credit entry and for each credit entry is a debit entry.

The total of all the items recorded in all the accounts on the debit side

should equal the total of all the items recorded on the credit side of the accounts.

To check that we prepare Trial Balance

Trial Balance as at 30 April

Description	Dr	Cr
Cash	£240.00	
Capital		£240.00
Purchase	£200.00	
Motor Van	£150.00	
Rent	£50.00	
loan payment		
Current Liabilities		
(Loan from Tatiana)		£50.00
Sales		£350.00
	Total	£640.00
		£640.00

Income /Revenue and Expenses for a specified period of time are reported in a financial Profit and Loss Statement.
 It is usually prepared for 3 months or a year.
 Profit and Loss Statement also is called Income Statement.
 The entity uses the income statement to assess its financial position.

Loss and profit statement

					Dr
Sales					£350.
Purchase				£200.00	
(-) goods in hand at 30 April				£100.00	£100.
Gross profit					£250.
(-)Expenses					
Rent				£50.00	
loan				£200.00	£250.
Net profit					

Balance sheet informs the reader of
 a company's financial position as of one moment in time.

Total Assets:				£490.00	
Fixed assets					
motor van				£150.00	
Current assets					
Cash				£240.00	
goods in hand				£100.00	£340.
Liabilities					
loan					£250.
Capital					£300.
(+) Net Profit					
(-)Drewing					£60.
New Capital					£240.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

--	--

Total Assets Current Assets + Non - current Assets	Total Liabilities Current Liabilities + Non - current Liabilities
	Ownership Interest

Task 2

Cash Account

Dr			
Date	Description	Amount	Date
01-Jan	Capital	£5,000.000	
04-Jan	Loan from Sergei	£1,000.000	
13-Jan	Sold goods	£300.00	
20-Jan	Sold goods	£500.00	
		£6,800.000	
Closing balance		£4,025.000	

Capital

Dr			
Date	Description	Amount	Date
30-Jan	Cash	£175.00	
			Closir

Motor Van

Dr			
Date	Description	Amount	Date
02-Jan	Cash	£600.00	

Purchase goods

Dr			
----	--	--	--

Date	Description	Amount	Date
03-Jan	Cash	£1.300	

Loan from Sergei

Dr			
Date	Description	Amount	Date
27-Jan	cash	£350.00	
			Balan

Sales

Dr			
Date	Description	Amount	Date
			Closir

Storage Expenses

Dr			
Date	Description	Amount	Date
24-Jan	cash	£150.00	

Motor Van Expenses

Dr			
Date	Description	Amount	Date
10-Jan	Cash	£200.00	

Closing inventory £800.00

JOURNAL

Journal entris in the book of Pendo for the month of January

date	Description			Dr	
01-Jan	Cash			£5.000	
	Capital				
	(Introduce cash into the business)				
02-Jan	Motor van			£600.00	
	Cash				
	(Purchased a motor van)				

03-Jan	Purchase			£1.300	
	Cash				
	(Bought goods)				
04-Jan	Cash			£1.000	
	Current liabilities				
	(Loan from Sergei)				
10-Jan	Motor Van Expenses			£200.00	
	Cash				
	(Paid expenses on the Motor Van)				
13-Jan	Cash			£300.00	
	Sales				
	(Sold goods)				
20-Jan	Cash			£500.00	
	Sales				
	(Sold goods)				
27-Jan	Loan from Sergei			£350.00	
	Cash				
	(Repaid Sergei part of his loan)				
30-Jan	Capital			£175.00	
	Cash				
	(withdrew cash from the business)				
31-Jan				£9.425	

Profit and Loss Statement

					Dr
Sales					
Purchase				£1,300.000	
(-) goods in hand at 30 April				£800.00	
Gross profit					
(-)Expenses					
Moto Van				£200.00	

Storage				£150.00	
loan				£350.00	
Net profit/loss					-

Statement of Financial Position at 31 January

Total Assets:				£5,425	
Fixed assets					
motor van				£600.00	
Current assets					
Cash				£4,025.000	
goods in hand				£800.00	£4,
Liabilities					
loan					£1,
Capital					£5,
(+) Net Profit/loss					-
(-) Drawings					
New Capital					

Drawings reduces Capital - they are never an expense of the business

**The Trial Balance is a list of account balances arranged according to whether they are debit balances or credit balances
It is a snapshot of the balances on the ledger accounts at the last day of the accounting period.**

Trial Balance as at 31 January

Description			Dr	Cr
Cash			£4,025.000	
Capital				£4,825.000
Purchase			£1,300.000	
Motor Van			£600.00	
Motor van expenses			£200.00	
Storage Expenses			£150.00	
Current Liabilities				
(Loan from Sergei)				£650.000
Sales				£800.00

		Total	£6,275.000	£6,275.000
--	--	--------------	-------------------	-------------------

Task 3

Cash Account

Dr				
Date	Description	Amount	Date	Description
01-Jan		£343.000	05-Jan	Wages
07-Jan	Smith	£18.000	09-Jan	Max
11-Jan	sales	£64.00	14-Jan	Wages
23-Jan	Harvey	£25.000	14-Jan	purchase
21-Jan	sales	£110.00	15-Jan	Rich
28-Jan	sales	£84.00	20-Jan	office desk
31-Jan	sales	£30.000	21-Jan	Wages
		£674.000	23-Jan	office expenses
			28-Jan	wages
Closing balance		£323.00		

Smiths Account

Dr				
Date	Description	Amount	Date	Description
01-Jan		£18.00	07-Jan	

Harveys Account

Dr				
Date	Description	Amount	Date	Description
01-Jan		£39.00		
02-Jan	on credit	£124.00	23-Jan	cash
Closing balance		£138.00		

Moons Account

Dr				
Date	Description	Amount	Date	Description
		£26.00		

Rich

Dr				
Date	Description	Amount	Date	Description
15-Jan	Cash	£162.00	01-Jan	
			05-Jan	

Max

Dr			
Date	Description	Amount	Date Description
09-Jan		£21.00	01-Jan

Wages

Dr			
Date	Description	Amount	Date Description
05-Jan	Cash	£12.00	
14-Jan	Cash	£14.00	
21-Jan	Cash	£17.00	
28-Jan	Cash	£15.00	
		£58.00	

Sales

Dr			
Date	Description	Amount	Date Description
			02-Jan Harvey
			11-Jan Cash
			21-Jan Cash
			28-Jan Cash
			31-Jan Cash

Closing balance

Purchase

Dr			
Date	Description	Amount	Date Description
05-Jan	Rich ac	£150.00	
14-Jan	Cash	£75.00	
		£225.00	

Office expenses

Dr			
Date	Description	Amount	Date Description
23-Jan	Cash	£3.00	

Office desk

Dr			
Date	Description	Amount	Date Description
20-Jan	Cash	£32.00	

Inventory at cost was 374.00

Jurnal of accounts entries

date	Description	Dr	Cr
02-Jan	Account recievable (sold goods to Harvey)	£124.00	
	goods		£124.00
05-Jan	Wages	£12.00	
	Cash (paid wages)		£12.00
05-Jan	Purchase	£150.00	
	Account payable (Rich) (bough goods on credit)		£150.00
07-Jan	Cash smith (Smith setteled account)	£18.00	18.000
09-Jan	Max Cash (paid Max)	£21.00	£21.00
11-Jan	Cash Sales (cash sales)	£64.00	£64.00
14-Jan	Wages Cash (paid wages)	£14.00	£14.00
14-Jan	Purchase Cash (Bough goods for cash)	£75.00	£75.00
15-Jan	Rich Cash (Paid Rich)	£162.00	£162.00
20-Jan	Office desk Cash (Bough for cash office desk)	£32.00	£32.00
21-Jan	Wages Cash (Paid wages)	£17.00	£17.00
21-Jan	Cash Sales (Cash sales)	£110.00	£110.00

23-Jan	Office expenses	£3.00	
	Cash		£3.00
	(Paid office expenses)		
23-Jan	Cash	£25.00	
	Harvey		£25.00
	(Harvey paid on account)		
28-Jan	Cash	£84.00	
	Sales		£84.00
	(Cash sales)		
28-Jan	Wages	£15.00	
	Cash		£15.00
	(Paid wages)		
31-Jan	Cash	£30.00	
	Sales		£30.00
	(Cash sales)		
		£956.00	£956.00

The Trial Balance is used as the basis for preparing Income Statement and Statements of financial position

Profit means the amount by which revenue is greater than expenses for set of transaction

Loss and profit statement

	Dr	Cr
Sales		£412.00
Purchase	£225.000	
(+)Inventory	£458.000	
(-) goods in hand at 30 Jan	£374.00	£309.00
Gross profit		£103.00
(-)Expenses		
Wages	£58.00	
Office expenses	£3.00	£61.00
Net profit/loss		£42.00
Total Assets:	£1.091	
Fixed assets		
Furniture and fittings	£198.00	
Office desk	£32.00	£230.00
Current assets		
Cash	£323.000	

goods in hand	£374.00	
Recievable(Moon)	£26.00	
Recievable(Harvey)	£138.00	£861.00
Liabilities		
Capital	£1.049	
(+) Net Profit/loss	£42.00	
(-)Drewing		
New Capital		£1.091

Assets = Liabilities +Capital

Trail Balance as at 31 January

The Trial Balance always has the date of the last date of the accounting period to which it relates.

Description	Dr	Cr
Cash	£323.000	
Capital		£1,049.000
Harvey	£138.000	
Moon	£26.00	
Sales		£412.00
Purchase	£225.00	
Office expenses	£3.00	
Desk	£32.00	
Inventory	£458.00	
Assets	£198.00	
wages	£58.00	
	£1,461.000	£1,461.000

Opening Inventory is recorded in a ledger account and so would be included in the trial balance prerared

The closing Inventory figure is not found in on account in the ledger so it does not appear in the trial balance

Task 4

Clarie Account

Dr				
Date	Description	Amount	Date	Desc
02-Jun	Sales	8500		
			22-Jun	Sales
			24-Jun	Cash
				Sales
			24-Jun	Discc

Cash

Dr				
Date	Description	Amount	Date	Desc
24-Jun	Clarie	7125	25-Jun	Geor
25-Jun	Hywel	8550	27-Jun	Andr
20-Jun	Sales	6000		
		21675		
	Balance c/d	£6,105.00		

Hywel

Dr				
Date	Description	Amount	Date	Desc
14-Jun	Sales	8550	25-Jun	Cash

Andrew

Dr				
Date	Description	Amount	Date	Desc
27-Jun	Cash	£4,410.00	21-Jun	Purcl
27-Jun	Purchase disscount	£90.00		

Mandy

Dr				
Date	Description	Amount	Date	Desc
24-Jun	Sales	£5.000		

Sales

Dr				
Date	Description	Amount	date	Desc
22-Jun		1000	02-Jun	Clari
			14-Jun	Hywe
			20-Jun	Cash
			24-Jun	Mani

Purchase

Dr				
Date	Description	Amount	Date	Desc
13-Jun	Cash	12000		
21-Jun	Andrew	4500		

Georgia

Dr				
Date	Description	Amount	Date	Desc
			13-Jun	Purcl
25-Jun	Cash	£11,160.00		
25-Jun	Purchase disscount	£840.00		
		£12,000.00		

Sales discount

Dr				
Date	Description	Amount	Date	Desc
24-Jun	Clarie a/c	£375.00		

Purchase discount

Dr				
Date	Description	Amount	Date	Desc
			25-Jun	Geor
			27-Jun	Andr

Every transaction is recorded twice so that for every debit there is an equal corresponding credit

TRANSACTION IN THE BOOK OF RICARDO

Date	Description			Dr	Cr
02-Jun					
	Account Recievable			£8,500.000	
	(Clarie)				
	Sales				£8
	(Sold goods to Clarie on credit)				
13-Jun	Purchase			£12,000.000	
	Account Payable (Georgina)				£12
	(Bought goods from Georgina on credit)				
14-Jun	Hywel			£8,550.000	
	Sales				£8
	(Sold goods to Hywel)				
20-Jun	Cash			£6,000.000	
	Sales				£6
	(Sold goods to Jane for cash)				

21-Jun	Purchase			£4,500.000	
	Account Payable (Andrew)				£4
	(Bought goods from Andrew on credit)				
22-Jun	Sales returned			£1,000.000	
	Clarie				£1
24-Jun	Account Recievable (Mandy)			£5,000.000	
	Sales				£5
	(Mandy bought goods)				
24-Jun	Cash			£7,125.000	
	Sales discount			£375	
	Account Recievable (Clarie)				£7
	(Clarie paid after discount)				
25-Jun	Cash			£8,550.000	
	Account Recievable Hywel				£8
	(Hywel settled amount)				
25-Jun	Georgina			£12,000.000	
	Cash				£11
	Purchase Discount				:
	(Ricardo paid Georgina after discount)				
27-Jun	Andrew account			£4,500.000	
	Cash				£4
	Purchase Discount				
	(paiment made to Andrew)				
				£78,100.000	£78

The Trial Balances are one form of checkng the accuracy of entries in the accounts.

It is practice to prepare one at the end ot the period

TRIAL BALANCE

Description		Dr	Cr
Sales			£27.050
Purchase		£16.500	
Cash		£6.105	
Discount Purchase			£0.930

Discount Sales		£0.375	
Mandy		£5.000	
Total		£27.980	£27.980

References

- Dargenidou, C., Jackson, R.H., Tsalavoutas, I. and Tsoligkas, F.,(2019). A disadvantage in IFRS adoption in the UK: the adverse consequences of IAS 38. Available at SSRN 2995597.
- GOV.UK, (2019). *Capital vs revenue expenditure toolkit*. Available from < https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717616/Capital-toolkit.pdf > [Accessed on 2 March, 2019]
- IFRS, (2019). *IAS 18 Revenue*. Available from < <https://www.ifrs.org/issued-standards/list-of-standards/ias-18-revenue/> > [Accessed on 6 March,2019]
- Jakovljevic, M., Varavikova, E.A., Walter, H., Wascher, A., Pejicic, A.V. and Lesch, O.M., (2017). Alcohol beverage household expenditure, taxation and government revenues in broader European WHO region. *Frontiers in pharmacology*, 8, p.303.
- Lansdellrose, (2019). *Capital vs revenue expenditure*. Available from < <http://lansdellrose.co.uk/blog/capital-vs-revenue-expenditure/> > [Accessed on 6 February,2019]

Appendices:

Appendix 1: Relation between capital and revenue expenses

