

Lecturer Name:Muno Zuwirai

Student Name:Cornelia Dinca

Student Number:1816271

## **ACCOUNTING FUNDAMENTALS**

## EXECUTIVE SUMMARY

The accounting fundamentals and accounting principles assist the businesses with a framework for the business. This report aimed to shed light on the role and significance of various financial statements and ledger accounts on the business. On the other hand, it can be seen that this report has found that the net profit for the Smith's Grocery was £ 25,265. The value of the assets and the liabilities in the balance sheet has tallied and this reflects that the balance sheet is fair. On the other hand, it has been observed that the debit and credit side of trial balance has tallied and this reflects the trial balance has tallied. On the other hand, T accounts has been presented for the Maria's business. Lastly, the going to concern concept assumes that the business continues with a foreseeable future has been evaluated in this study.

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## Task 1: Prepare a profit and loss account/income statement and a balance sheet/statement of financial position for the year ending 31st December 2023

### 1.1. Prepare Income Statement for Smiths

| Income Statement in the books of D.Smith for the year ended 31st December 2023 |               |               |
|--------------------------------------------------------------------------------|---------------|---------------|
| Particulars                                                                    | Amount        | Amount        |
| Sales                                                                          | £ 1,60,000.00 |               |
| Less: Sales Return                                                             | £ 4,000.00    |               |
| Less: Discount allowed                                                         | £ 700.00      |               |
| <b>Total Sales</b>                                                             |               | £ 1,55,300.00 |
| Cost Of Goods Sold (COGS):                                                     |               |               |
| Add: Opening inventory                                                         | £ 3,000.00    |               |
| Purchase                                                                       | £ 95,000.00   |               |
| Less: Purchase Return                                                          | £ 5,000.00    |               |
|                                                                                | £ 93,000.00   |               |
| Less: Closing inventory                                                        | £ 5,000.00    |               |
| Add: Discount received                                                         | £ 200.00      |               |
| <b>Total COGS</b>                                                              |               | £ 88,200.00   |
| <b>Gross Profit</b>                                                            |               | £ 67,100.00   |
|                                                                                |               |               |
| <b>Expenses:</b>                                                               |               |               |

|                                      |                    |                    |
|--------------------------------------|--------------------|--------------------|
| Rent                                 | £ 2,200.00         |                    |
| Salaries                             | £ 28,000.00        |                    |
| Bad Debt                             | £ 800.00           |                    |
| Opening provision for Doubtful debts | £ 500.00           |                    |
| Provision for bad debt               | £ 810.00           |                    |
| Depreciation on Furniture            | £ 1,800.00         |                    |
| Depreciation on Vehicles             | £ 4,275.00         |                    |
| Interest on loan                     | £ 1,000.00         |                    |
| Electricity and gas Expenses         | £ 1,500.00         |                    |
| Vehicle maintenance                  | £ 950.00           |                    |
| <b>Total Expenses</b>                | <b>£ 41,835.00</b> | <b>£ 41,835.00</b> |
| <b>Net Profit</b>                    |                    | <b>£ 25,265.00</b> |

**Table 1: Income statement**

(Source: Created by the author)

Robinson, (2020) claimed income communicates the number of sales or revenue a firm generates in a given time and the cost that is incurred along with the generation of time. The Net income within the income statement is mostly referred to as the bottom line as it is the proximity of the income statement's bottom. The above table, indicates Smith Grocery store, holds total sales of about £155300, gross profit of £67100, and total expense of £41835, which finally gives a Net Profit of about £25265.

## 1.2. Prepare a Balance sheet for smiths

**Balance Sheet in the books of D.Smith for the year ended 31st December 2023**

| Particulars                                 | Amount             | Amount             |
|---------------------------------------------|--------------------|--------------------|
| <b>Assets</b>                               |                    |                    |
| <b>Current Asset</b>                        |                    |                    |
| Bank Balance                                | £ 5,000.00         |                    |
| Furniture                                   | £ 15,000.00        |                    |
| Less: depreciation                          | £ 1,800.00         |                    |
| Less: Accumulated Depreciation on furniture | £ 5,000.00         |                    |
|                                             | <b>£ 8,200.00</b>  |                    |
| Trade receivables                           | £ 17,000.00        |                    |
| Less: Bad debt is written off               | £ 800.00           |                    |
| Less: Provision for doubtful debt           | £ 810.00           |                    |
| Add: Provision for bad debt                 | £ 300.00           |                    |
|                                             | <b>£ 15,690.00</b> |                    |
| Vehicle at cost                             | £ 28,500.00        |                    |
| Less: depreciation                          | £ 4,275.00         |                    |
| Less: Accumulated depreciation on vehicles  | £ 7,000.00         |                    |
|                                             | <b>£ 17,225.00</b> |                    |
| Closing Inventory                           | £ 5,000.00         |                    |
| Prepaid Rent                                | £ 300.00           |                    |
| <b>Total Assets</b>                         |                    | <b>£ 51,415.00</b> |
|                                             |                    |                    |

|                                   |             |                    |
|-----------------------------------|-------------|--------------------|
| <b>Liabilities</b>                |             |                    |
| <b>Current Liabilities</b>        |             |                    |
| Loan                              | £ 10,000.00 |                    |
| Add: Interest of loan             | £ 1,000.00  |                    |
|                                   | £ 11,000.00 |                    |
| Outstanding salaries              | £ 3,000.00  |                    |
| Vehicle Maintenance Cost          | £ 150.00    |                    |
|                                   |             | <b>£ 14,150.00</b> |
| <b>Total Liabilities</b>          |             |                    |
|                                   |             |                    |
| <b>Equity</b>                     |             |                    |
| Capital                           | £ 25,000.00 |                    |
| Less: drawings                    | £ 13,000.00 |                    |
| Add: Net Profit                   | £ 25,265.00 |                    |
|                                   |             |                    |
|                                   |             |                    |
| <b>Total equity</b>               |             | <b>£ 37,265.00</b> |
|                                   |             |                    |
| <b>Total Liabilities + Equity</b> |             | <b>£ 51,415.00</b> |

**Table 2: Balance sheet**

(Source: Created by the author)

Robinson, (2020) stated balance assists in presenting a firm's current financial status by disclosing the firm's resources assets and what it owes which is its liability in a specific pointy. The equity does represent the excess amount of assets over the liabilities. It holds the Accounting equation:  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$ . Considering the table provided above, in the case of Smith the Assets is £51415, whereas liabilities are £14150 and Owner's equity is £37265, which is £51415. This depicts that the assets and liabilities of the firm are balanced as they fulfil the accounting equation.

## Task 2: Create T accounts and from these balances prepare trial balance

### 2.1. Prepare the 'T' accounts

| Capital Account |                |             |            |                |             |
|-----------------|----------------|-------------|------------|----------------|-------------|
| Date            | Particulars    | Amount (£)  | Date       | Particulars    | Amount (£)  |
| 28-02-2024      | Drawings       | £ 1,200.00  | 01-02-2024 | By balance b/d | £ 30,000.00 |
| 28-02-2024      | To Balance c/d | £ 29,500.00 |            | By Cash        | £ 700.00    |
|                 |                |             |            |                |             |
|                 |                |             |            |                |             |
|                 |                | £ 30,700.00 |            |                | £ 30,700.00 |

**Table 3: Capital Account**

(Source: Created by the author)

| Van Account |                |             |            |                         |            |
|-------------|----------------|-------------|------------|-------------------------|------------|
| Date        | Particulars    | Amount (£)  | Date       | Particulars             | Amount (£) |
| 01-02-2024  | To balance b/d | £ 15,000.00 | 27-02-2024 | By Cash                 | £ 8,000.00 |
|             |                |             | 27-02-2024 | By Depreciation         | £ 6,000.00 |
|             |                |             | 27-02-2024 | By loss on sales of Van | £ 1,000.00 |
|             |                |             |            |                         |            |

|  |  |           |  |  |           |
|--|--|-----------|--|--|-----------|
|  |  | £         |  |  | £         |
|  |  | 15,000.00 |  |  | 15,000.00 |

**Table 4: Van Account**

(Source: Created by the author)

| Bank Account |                |             |            |                |             |
|--------------|----------------|-------------|------------|----------------|-------------|
| Date         | Particulars    | Amount (£)  | Date       | Particulars    | Amount (£)  |
| 01-02-2024   | To balance b/d | £ 10,000.00 | 04-02-2024 | By Payables    | £ 800.00    |
| 09-02-2024   | To Receivables | £ 3,000.00  | 07-02-2024 | By Purchase    | £ 700.00    |
| 28-02-2024   | To Cash        | £ 6,000.00  | 11-02-2024 | By Fuel        | £ 350.00    |
|              |                |             | 18-02-2024 | By Insurance   | £ 450.00    |
|              |                |             |            |                |             |
|              |                |             | 28-02-2024 | By balance c/d | £ 16,700.00 |
|              |                | £ 19,000.00 |            |                | £ 19,000.00 |

**Table 5: Bank Account**

(Source: Created by the author)

| Cash Account |                |            |            |                |            |
|--------------|----------------|------------|------------|----------------|------------|
| Date         | Particulars    | Amount (£) | Date       | Particulars    | Amount (£) |
| 01-02-2024   | To balance b/d | £ 2,000.00 | 03-02-2024 | By Computer    | £ 1,000.00 |
| 02-02-2024   | To Capital     | £ 700.00   | 25-02-2024 | By Wages       | £ 800.00   |
| 15-02-2024   | To Receivables | £ 2,600.00 | 26-02-2024 | By Advertising | £ 500.00   |
|              | To Van         | £ 8,000.00 | 28-02-2024 | By Bank        | £ 6,000.00 |

|  |  |             |            |                |             |
|--|--|-------------|------------|----------------|-------------|
|  |  |             | 28-02-2024 | By Drawings    | £ 1,200.00  |
|  |  |             | 28-02-2024 | By balance c/d | £ 3,800.00  |
|  |  | £ 13,300.00 |            |                | £ 13,300.00 |

**Table 6: Cash Account**

(Source: Created by the author)

| Receivables Account |                |            |            |                |            |
|---------------------|----------------|------------|------------|----------------|------------|
| Date                | Particulars    | Amount (£) | Date       | Particulars    | Amount (£) |
| 01-02-2024          | To balance b/d | £ 5,000.00 | 09-02-2024 | By Bank        | £ 3,000.00 |
| 21-02-2024          | To Sales       | £ 2,400.00 | 15-02-2024 | By Cash        | £ 2,600.00 |
|                     |                |            |            |                |            |
|                     |                |            | 28-02-2024 | By balance c/d | £ 1,800.00 |
|                     |                | £ 7,400.00 |            |                | £ 7,400.00 |

**Table 7: Receivables Account**

(Source: Created by the author)

| Payables Account |                |            |            |                |            |
|------------------|----------------|------------|------------|----------------|------------|
| Date             | Particulars    | Amount (£) | Date       | Particulars    | Amount (£) |
| 04-02-2024       | To Bank        | £ 800.00   | 01-02-2024 | By balance b/d | £ 2,000.00 |
|                  |                |            | 20-02-2024 | By Purchase    | £ 1,200.00 |
| 28-02-2024       | To Balance c/d | £ 2,400.00 |            |                |            |
|                  |                |            |            |                |            |
|                  |                | £ 3,200.00 |            |                | £ 3,200.00 |

**Table 8: Payables Account**

(Source: Created by the author)

| Purchases Account |             |            |            |                |            |
|-------------------|-------------|------------|------------|----------------|------------|
| Date              | Particulars | Amount (£) | Date       | Particulars    | Amount (£) |
| 07-02-2024        | To Bank     | £ 700.00   | 28-02-2024 | By Balance c/d | £ 1,900.00 |
| 20-02-2024        | To Payables | £ 1,200.00 |            |                |            |
|                   |             |            |            |                |            |
|                   |             | £ 1,900.00 |            |                | £ 1,900.00 |

**Table 9: Purchases Account**

(Source: Created by the author)

| Sales Account |                |            |            |                |            |
|---------------|----------------|------------|------------|----------------|------------|
| Date          | Particulars    | Amount (£) | Date       | Particulars    | Amount (£) |
| 28-02-2024    | To Balance c/d | £ 2,400.00 | 21-02-2024 | By Receivables | £ 2,400.00 |
|               |                |            |            |                |            |
|               |                | £ 2,400.00 |            |                | £ 2,400.00 |

**Table 10: Sales Account**

(Source: Created by the author)

| Computers Account |             |            |            |                |            |
|-------------------|-------------|------------|------------|----------------|------------|
| Date              | Particulars | Amount (£) | Date       | Particulars    | Amount (£) |
| 03-02-2024        | To Cash     | £ 1,000.00 | 28-02-2024 | By balance c/d | £ 1,000.00 |
|                   |             |            |            |                |            |

|  |  |            |  |  |            |
|--|--|------------|--|--|------------|
|  |  | £ 1,000.00 |  |  | £ 1,000.00 |
|--|--|------------|--|--|------------|

**Table 11: Computers Account**

(Source: Created by the author)

| Fuel Account |             |            |      |             |            |
|--------------|-------------|------------|------|-------------|------------|
| Date         | Particulars | Amount (£) | Date | Particulars | Amount (£) |
| 11-02-2024   | To Bank     | £ 350.00   |      |             | £ 350.00   |
|              |             |            |      |             |            |
|              |             | £ 350.00   |      |             | £ 350.00   |

**Table 12: Fuel Account**

(Source: Created by the author)

| Advertisement Account |             |            |            |                |            |
|-----------------------|-------------|------------|------------|----------------|------------|
| Date                  | Particulars | Amount (£) | Date       | Particulars    | Amount (£) |
| 26-02-2024            | To Cash     | £ 500.00   | 28-02-2024 | By balance c/d | £ 500.00   |
|                       |             |            |            |                |            |
|                       |             | £ 500.00   |            |                | £ 500.00   |

**Table 13: Advertisement Account**

(Source: Created by the author)

| Wages Account |             |            |            |                |            |
|---------------|-------------|------------|------------|----------------|------------|
| Date          | Particulars | Amount (£) | Date       | Particulars    | Amount (£) |
| 25-02-2024    | To cash     | £ 800.00   | 28-02-2024 | By balance c/d | £ 800.00   |
|               |             |            |            |                |            |

|  |  |          |  |  |          |
|--|--|----------|--|--|----------|
|  |  | £ 800.00 |  |  | £ 800.00 |
|--|--|----------|--|--|----------|

**Table 14: Wages Account**

(Source: Created by the author)

| Insurance Account |             |            |            |                |            |
|-------------------|-------------|------------|------------|----------------|------------|
| Date              | Particulars | Amount (£) | Date       | Particulars    | Amount (£) |
| 18-02-2024        | To Bank     | £ 450.00   | 28-02-2024 | By balance c/d | £ 450.00   |
|                   |             |            |            |                |            |
|                   |             | £ 450.00   |            |                | £ 450.00   |

**Table 15: Insurance Account**

(Source: Created by the author)

| Depreciation Account |             |            |            |                |            |
|----------------------|-------------|------------|------------|----------------|------------|
| Date                 | Particulars | Amount (£) | Date       | Particulars    | Amount (£) |
| 27-02-2024           | To Van      | £ 6,000.00 | 28-02-2024 | By balance c/d | £ 6,000.00 |
|                      |             |            |            |                |            |
|                      |             | £ 6,000.00 |            |                | £ 6,000.00 |

**Table 16: Depreciation Account**

(Source: Created by the author)

From the ledger accounts, it can be seen that the various accounts have been prepared and the entries has been adjusted in each of the accounts. In addition, the entries have been entered on the basis of debit and credit entries. The entries have been recorded and the values are summed up. The opening values have been adjusted for the ledger accounts where the opening balances are available. On the other hand, the summation has been computed and the values have been adjusted for computing the closing balance. The closing balances for

the accounts have been entered as balance c/d. The closing values are carried forward and shown in the trial balance as well.

## 2.2. Prepare the trial balance

| Trial Balance for Maria<br>for the month ended 28 February 2024 |                 |             |
|-----------------------------------------------------------------|-----------------|-------------|
| Particulars                                                     | Debit           | Credit      |
|                                                                 | Amount (£)      | Amount (£)  |
| Cash                                                            | £ 3,800.00      |             |
| Bank                                                            | £ 16,700.00     |             |
| Computers                                                       | £ 1,000.00      |             |
| Receivables                                                     | £ 1,800.00      |             |
| Payables                                                        |                 | £ 2,400.00  |
| Purchase                                                        | £ 1,900.00      |             |
| Sales                                                           |                 | £ 2,400.00  |
| Advertisement                                                   | £<br>500.00     |             |
| Wages                                                           | £<br>800.0<br>0 |             |
| Insurance                                                       | £<br>450.0<br>0 |             |
| Depreciation                                                    | £ 6,000.00      |             |
| Capital                                                         |                 | £ 29,500.00 |

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Fuel                | £<br>350.0<br>0    |                    |
| Loss on sale of Van | £ 1000             |                    |
| <b>Total Value</b>  | <b>£ 34,300.00</b> | <b>£ 34,300.00</b> |

**Table 17: Trial Balance for Maria**

(Source: Created by the author)

From the trial balance, it can be seen that opening and closing balance for the month has been entered. In this context, it can be seen that the balance for the assets and expenses has been recorded on the debit side of the trial balance. On the other hand, the liabilities for the business have been recorded on the credit side of the trial balance. The total value for the debit and credit side has been obtained £ 34,300. In this context, it can be seen that the total debit and credit sides are equal and thus the trial balance is fair.

## **Task 3: Prepare an essay on the concept, application and significance of ‘going concern in accounting.’**

### **3.1. Evaluation of the concept of ‘going concern’ in accounting**

The going concern concept is an accounting principle that states that business is immortal. The basic assumption for this accounting principle is that the business continues its operations for the foreseeable future (CFI, 2024). This states that the owners of the business need to establish a business with a motive or objective of continuing the business for a long period of time. Thus, this accounting principle strictly opposes the concept of liquidifying or winding up the business. The going concern concept promotes the carry forward of incomes and expenses. For example, the concept of prepaid or outstanding incomes and prepaid or outstanding expenses are followed under the going concern concept (CFI, 2024). Therefore, it can be summed up that the going concern concept is a basic accounting principle that assumes that the business will continue its operations for the foreseeable future.

### **3.2. Evaluation of the application of ‘going concern’ in accounting**

This accounting concept is applicable to the business when the assumption that the business will continue for the foreseeable future. The concept of the foreseeable future has been described under the International Standards on Auditing (ISA) 570 (Accaglobal, 2024). This accounting concept states that the financial statement is prepared at the end of 12 months and the balance is carried forward to the next accounting period. In addition, this accounting concept helps in management audits and at the same time helps in compliance with the respective responsibilities of auditors (Accaglobal, 2024). Therefore, it can be summed up that the going concern concept is used for computing the closing balance of the accounts at the end of 12 months which is equivalent to one accounting period.

### **3.3. Evaluation of the significance of ‘going concern’ in accounting**

The going concern concept is relevant for computing the values of the financial elements. The going concern concept is relevant for computing the values of the income statement and balance sheet. The values computed from the financial statements are carried forward to the next accounting period. However, a clear description of this accounting principle is not mentioned in the Generally Accepted Accounting Principles (GAAP) (CFI, 2024). This results in complexities and confusion regarding the accounting principle. Therefore, it can be summed

up that the going concern concept can be used for computing the values of the financial elements at the end of any accounting period.

## Reference

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