



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Name: Samuel Veres

Student Number: 1818847

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Module Lecturer's Name:
Dr Rexon Nting

Fundamentals of financial accounting

“There are three terms which underpin Much of the system of financial accounting: assets, liability, and capital (equity)” (Wood & Horner, 2010, p. 4).

Wood & Horner (2010) define them as following:

Assets- resources used by the business as part of the business

Liabilities- Debts of the business or what is owned by the business to others, and they are long term or short term

Capital- resources which are supplied to the business by the owner or owners of the business, and can be in form of money or as other assets.

The accounting equation

Accounting transactions may be considered from 2 different perspectives and the equation that encapsulate the principle of duality is $\text{Assets} = \text{Capital} + \text{Liabilities}$ according to Wood & Horner (2010).

Double entry bookkeeping

“Business transactions are recorded in accounts. The maintenance and recording of transactions within these accounts is known as double-entry bookkeeping. The double-entry bookkeeping term is used because each transaction can be seen to have to separate effects on the business” (Wood & Horner, 2010).

Double- entry account

Account name					
Debit side (Dr)			Credit side (Cr)		
Date	Account details	Amount £	Date	Account details	Amount £

Table from (Wood & Horner, 2010, p. 9)

According to Wood & Horner (2010), because of the shape this accounts are named T accounts and each of the will show the following:

- Account name – refers to type of the transaction, each different type of the transaction would be recorder in a separate account
- Debits and credits- refers to the left or right side of the account and refer on how entries are made
- Account details- contain the name of the other account that transaction has affected and each transaction will affect two accounts

Basic principles that need to be applied on recording a double-entry bookkeeping:

1. “Every transaction requires two entries to be made in separate accounts” (Wood & Horner, 2010, p. 10)

2. "every transaction requires one debit entry and one credit entry to be made in each of the two accounts" (Wood & Horner, 2010, p. 10)

Rules for double-entry transactions

According to Wood & Horner (2010) the rules for recording the double entry transactions are the following:

All Assets accounts:

Increases will be entered on the Debit side

Decreases will be entered on Credit side

All Liability Accounts:

Decrease will be entered on the Debit side

Increase will be entered on the Credit side

All Capital accounts:

Decrease will be entered in the Debit side

Increase will be entered on the Credit side

"The book which contain the accounts that are recorded these transactions are known as ledgers" (Wood & Horner, 2010, p. 12).

Drawings

"Resources taken out of the business by the owner are known as drawings. As the owner will be withdrawing assets from the business, the relevant assets account will be credited; the debit entry is in the drawings account" (Wood & Horner, 2010, p. 17)

Income and expenses

According to Wood & Horner (2010) businesses will incur expenses as part of their trading operations and money will be received as income or revenue. They will be recorded as following:

Expenses

Account to be debited	Account to be credited
Expense	Bank or cash

Income and other revenues

Account to be debited	Account to be credited
Bank or cash	Income

"An account should be opened for each separate expense generated by the business [...] another way of separating the accounts is to ensure that expense and income accounts remain separate" (Wood & Horner, 2010, p. 19).

Balancing the accounts

“Balancing off Accounts involves comparing the totals of the debit entries in the individual accounts with the total of credit entries. The balance on an account arises where there is a difference between the total of the debits and the total of the credits” (Wood & Horner, 2010, p. 19).

“The term *balance c/d* refers to the balance on the account to be carried down to the next period of time [...] this term is the *balancing amount* not the balance [...] the balancing figure is then brought down (balance b/d) to the opposite side of the account for the next period of time. This is the actual balance” (Wood & Horner, 2010, p. 20)

According to Wood & Horner (2010) there are few rules that apply for balancing accounts:

- Balance only exist if there is a difference between the totals on each side
- The totals of each side of the account are not balances
- The balancing figure on the account Will be the amount needed to ensure the total of each side are equal
- Ensure that the totals of the accounts are written on the same line down
- Bring the balance down onto the opposite side of the account from the balancing figure

Financial statements

“One of the most important uses of the double entry system of bookkeeping is to produce the financial statements of the business (also known as the final account of the business). These statements provide crucial information on business performance” (Wood & Horner, 2010, p. 28)

Trial Balance

“Once the double-entry accounts have been balanced off then it is possible to construct a trial balance for the business which will facilitate the construction of the financial statements” (Wood & Horner, 2010, p. 28).

“The trial balance is simply a list of closing balances on each individual ledger account. The debit balances and credit balances are listed in separate columns. If the double-entry bookkeeping has been conducted correctly [...] should total the same amount” (Wood & Horner, 2010, p. 29).

As Wood & Horner say any unsold inventory will be treated as an asset and will be stated outside the trial balance as there is no individual account for the inventory, and balances can be credit or debit.

Statement of comprehensive income

“The statement of comprehensive income is the statement which shows the profit or loss earned by a business for a particular period of time [...] A statement of comprehensive income is also known as a profit and loss account or income statement” (Wood & Horner, 2010, pp. 30,31).

Calculating profit

As Wood & Horner (2010) suggest profit is measured over a period of time and requires calculating total income and total expenses for that period of time and the difference between these 2 is the profit for that period of time.

Difference between gross and net profits

Trading account calculate the gross profit which is calculated as the profit made on the buying and selling of goods, the profit and loss account calculates the net profit which is calculated as the profit remaining after all the other expenses are deducted as Wood & Horner (2010) suggests.

“Trade receivables and trade payables are the names given to the total of debtors and creditor respectively. In the double entry accounts these balances would appear as the name of the relevant debtor or creditor” (Wood & Horner, 2010, p. 32).

Trading account

In the trading account is calculated the gross profit which is calculated as the difference between sales and the cost of the goods sold less closing inventory, and the equation for this is $\text{Gross profit} = \text{Sales} - \text{Cost of goods sold} - \text{Closing inventory}$ according to Wood & Horner (2010).

“The trading account should not really be thought as an account. Think of it as part of the business’s financial statements” (Wood & Horner, 2010, p. 33) .

Profit and loss account

“Once we have calculated the gross profit (or gross loss) of the business, it is now time to include all other expenses that the business has incurred so as to arrive at the net profit. It is important that we include the income and expenses belonging to the particular time period we are concerned with” (Wood & Horner, 2010, p. 33).

The equation for net profit according to Wood & Horner (2010) is $\text{Net profit} = \text{Gross Profit} - \text{Expenses}$ and the profit represents that the business has generated more income than expenses generated for that period of time, or loss when the income is lower than the expenses.

Statement of financial position

“A statement which shows the assets, liabilities and capital of the business, enabling an assessment to be made of the strengths of the business” (Wood & Horner, 2010, p. 41).

“The other main part of a set of financial statements is the statement of financial position also known as balance sheet” (Wood & Horner, 2010, p. 37).

According to Wood & Horner (2010) statement of financial position can be thought of as a list of the assets of the business and it shows the list of the assets and how they were financed, either from the owners resources (capital) or by borrowing (liabilities), and instead of just being listed further subdivisions are used as following:

- Non-current assets (fixed assets) are those assets which are not bought with the intention of resale and are used within the business to generate income (property, machinery, etc)
- Current assets are assets which are likely to be converted in cash before the end of the year (inventory, trade receivables, bank and cash)
- Current liabilities are those liabilities expected to be settled before the date of the next statement of financial position (trade payables, overdrafts and any other short-term borrowings)

- Non-current liabilities are the liabilities that the business doesn't have to pay until after the date of the next statement of financial position (long term loans, mortgages and debentures)
- Capital it will be affected by the profit earned for the period, and will be reduced by drawings for the same period (Old capital + Net Profit less Drawings = New Capital)

Use of statement of financial position

According to Wood & Horner (2010) the statement of financial position provides the following uses:

- It gives an estimate for the overall values of the business
- The financial structure of the business can be examined
- Working capital is a useful calculation in providing information about the overall liquidity position of the business

Bringing the statements together

According to Wood & Horner (2010) the statement of comprehensive income and the statement of financial position are normally constructed together; the statement of comprehensive income being constructed first. The net profit will be added to the capital balance on balance sheet and if there is are errors or mistakes the balance sheet will not be in balance.

Task 1

Cash	
Debit	Credit
5 April Capital £300	7 April Purchases £200
8 April Loan Tatiana £250	
	15 April Van £150
20 April Sales £350	
	28 April Rent £50
	29 April Loan Tatiana £200
	30 April £60
	30 April Balance C/d £240
Total £900	Total £900
1 May Balance B/d £240	

Capital	
Debit	Credit
	5 April Cash £300
30 April Balance c/d £300	

Total £300	Total £300
	1 May Balance b/d £300

Purchases

Debit	Credit
7 April Cash £200	30 April Balance c/d £200
Total £200	Total £200
1 May Balance b/d £200	

Loan Tatiana

Debit	Credit
29 April Cash £200	8 April Cash £250
30 April Balance c/d £50	
Total £250	Total £250
	1 May Balance b/d £50

Van

Debit	Credit
15 April Cash £150	30 April Balance c/d £150
Total £150	Total £150
1 May Balance b/d £150	

Sales

Debit	Credit
30 April Balance c/d £350	20 April Cash £350
Total £350	Total £350
	1 May Balance b/d £350

Rent

Debit	Credit
28 April Cash £50	30 April Balance c/d £50
Total £50	Total £50
1 May Balance b/d £50	

Drawings

Debit	Credit
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30 April £60	30 April Balance c/d £60
Total £60	Total £60
1 May Balance b/d £60	

List of Accounts Balances at 30 April

	Debit	Credit
Cash	£240	
Capital		£300
Purchases	£200	
Sales		£350
Van	£150	
Loan Tatiana		£50
Rent	£50	
Drawings	£60	
Total	£700	£700

Inventory at 30 April was valued at £100

Statement of Profit or Loss on 30 April

Account name	Debit	Credit
Sales (Revenue)		£350
Less cost of goods sold: Purchases	£200	
Less Closing inventory	<u>£100</u>	<u>£100</u>
Gross profit		<u>£250</u>
Less Expenses Rent	£50	
Net Profit		<u>£200</u>

Statement of financial position at 30 April

	Debit	Credit
Assets		
Non-Current Van	£150	
Current Assets Closing inventory Cash Account	£100 £240	
Capital Added: Net Profit Total Less Drawings: New Capital		£300 £200 <u>£500</u> £60 <u>£440</u>
Liabilities Loan Tatiana		£50

Total (Assets = Capital + Liabilities)	£490	£490
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Task 2

Cash					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
1 Jan	Capital	5000	2 Jan	Van	600
4 Jan	Loan Sergei	1000	3 Jan	Purchased Goods	1300
13 Jan	Sales Goods	300	10 Jan	Van Expenses	200
20 Jan	Sales Goods	500	24 Jan	Storage Expenses	150
			27 Jan	Loan Sergei	350
			30 Jan	Drawings	175
			31 Jan	Balance c/d	<u>4025</u>
<i>Total</i>		<i>6800</i>	<i>Total</i>		<i>6800</i>
1 Feb	Balance b/d	<u>4025</u>			

Capital					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
31 Jan	Balance c/d	5000	1 Jan	Cash	5000
<i>Total</i>		<i>5000</i>	<i>Total</i>		<i>5000</i>
			1 Feb	Balance b/d	5000

Van					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
2 Jan	Cash	600	31 Jan	Balance c/d	600
<i>Total</i>		<i>600</i>	<i>Total</i>		<i>600</i>
1 Feb	Balance b/d	600			

Purchases Goods					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
3 Jan	Cash	1300	31 Jan	Balance c/d	1300
<i>Total</i>		<i>1300</i>	<i>Total</i>		<i>1300</i>
1 Feb	Balance b/d	1300			

Loan Sergei					
Debit			Credit		

Date	Account	Amount £	Date	Account	Amount £
27 Jan	Cash	350	4 Jan	Cash	1000
31 Jan	Balance c/d	650			
<i>Total</i>		<i>1000</i>	<i>Total</i>		<i>1000</i>
			1 Feb	Balance b/d	650

Van Expenses					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
10 Jan	Cash	200	31 Jan	Balance c/d	200
<i>Total</i>		<i>200</i>	<i>Total</i>		<i>200</i>
1 Feb	Balance b/d	200			

Sales Goods					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
			13 Jan	Cash	300
			20 Jan	Cash	500
31 Jan	Balance c/d	800			
<i>Total</i>		<i>800</i>	<i>Total</i>		<i>800</i>
			1 Feb	Balance b/d	800

Storage expenses					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
24 Jan	Cash	150	31 Jan	Balance c/d	150
<i>Total</i>		<i>150</i>	<i>Total</i>		<i>150</i>
31 Jan	Balance b/d	150			

Drawings					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
30 Jan	Cash	175	31 Jan	Balance c/d	175
<i>Total</i>		<i>175</i>	<i>Total</i>		<i>175</i>
1 Feb	Balance b/d	175			

Trial Balance at 31 January

Account	Debit amount £	Credit amount £
Cash	4025	
Capital		5000

Van	600	
Purchases Goods	1300	
Loan Sergei		650
Van expenses	200	
Sales Goods		800
Storage expenses	150	
Drawings	175	
<i>Total</i>	<i>6450</i>	<i>6450</i>

Inventory was evaluated at £800

Statement of Profit or Loss on 31 Jan

Account name	Debit Amount £	Credit Amount £
Sales Goods (Revenue)		800
Less cost of goods sold: Purchases Goods	1300	
Less Closing inventory	<u>800</u>	<u>500</u>
Gross profit		<u>300</u>
Less Expenses Van expenses Storage expenses	200 <u>150</u>	<u>350</u>
Net Loss		<u>50</u>

Statement of financial position at 31 January

	Debit Amount £	Credit Amount £
Assets		
Non-Current Van	600	
Current Assets Closing inventory Cash Account	800 4025	
Capital Less: Net Loss Total Less Drawings: New Capital		5000 50 <u>4950</u> 175 <u>4775</u>
Liabilities Loan Sergei		650
<i>Total (Assets = Capital + Liabilities)</i>	<i>5425</i>	<i>5425</i>

Task 3

Cash					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
1 Jan	Balance b/d	343	5 Jan	Wages	12

7 Jan	Smith	18	9 Jan	Max	21
11 Jan	Sales Goods	64	14 Jan	Wages	14
21 Jan	Sales Goods	110	14 Jan	Purchased Goods	75
23 Jan	Harvey	25	15 Jan	Rich	162
28 Jan	Sales Goods	84	20 Jan	Furniture and fittings	32
31 Jan	Sales Goods	30	21 Jan	Wages	17
			23 Jan	Office expenses	3
			28 Jan	Wages	15
			31 Jan	Balance c/d	323
<i>Total</i>		<i>674</i>	<i>Total</i>		<i>674</i>
1 Feb	Balance b/d	323			

Smith					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
1 Jan	Balance b/d	18	7 Jan	Cash	18
<i>Total</i>		<i>18</i>	<i>Total</i>		<i>18</i>

Harvey					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
1 Jan	Balance b/d	39	23 Jan	Cash	25
2 Jan	Sales Goods	124	31 Jan	Balance c/d	138
<i>Total</i>		<i>163</i>	<i>Total</i>		<i>163</i>
1 Feb	Balance b/d	138			

Moon					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
1 Jan	Balance b/d	26	31 Jan	Balance c/d	26
<i>Total</i>		<i>26</i>	<i>Total</i>		<i>26</i>
1 Feb	Balance b/d	26			

Rich					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
15 Jan	Balance c/d	<u>162</u>	1 Jan	Balance b/d	12

15 Jan	Cash	162	5 Jan	Purchased Goods	150
			15 Jan	Balance b/d	<u>162</u>
<i>Total</i>		<i>324</i>	<i>Total</i>		<i>324</i>

Max					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
9 Jan	Cash	21	1 Jan	Balance b/d	21
<i>Total</i>		<i>21</i>	<i>Total</i>		<i>21</i>

Furniture and fittings					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
1 Jan	Balance b/d	198	31 Jan	Balance c/d	230
20 Jan	Cash	32			
<i>Total</i>		<i>230</i>	<i>Total</i>		<i>230</i>
1 Feb	Balance b/d	230			

Sales Goods					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
31 Jan	Balance c/d	412	2 Jan	Harvey	124
			11 Jan	Cash	64
			21 Jan	Cash	110
			28 Jan	Cash	84
			31 Jan	Cash	30
<i>Total</i>		<i>412</i>	<i>Total</i>		<i>412</i>
			1 Feb	Balance b/d	412

Purchases Goods					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
5 Jan	Rich	150	31 Jan	Balance c/d	225
14 Jan	Cash	75			
<i>Total</i>		<i>225</i>	<i>Total</i>		<i>225</i>
1 Feb	Balance b/d	225			

Wages					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
5 Jan	Cash	12	31 Jan	Balance c/d	58

14 Jan	Cash	14			
21 Jan	Cash	17			
28 Jan	Cash	15			
<i>Total</i>		<i>58</i>	<i>Total</i>		<i>58</i>
1 Feb	Balance b/d	58			

Office Expenses					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
23 Jan	Cash	3	31 Jan	Balance c/d	3
<i>Total</i>		<i>3</i>	<i>Total</i>		<i>3</i>
1 Feb	Balance b/d	3			

Trial Balance at 31 January

In order to extract a trial balance, we need to know the capital which according to the formula
 Capital = Assets – Liabilities, this means Capital=1082-33=1049 (capital at 1 Jan).

Closing inventory at 31 Jan it is not given as but it is given the cost of inventory which is 374, and from here using the cost of inventory formula, The Cost of Inventory = Beginning Inventory + Inventory Purchases – Ending inventory, in our case (X), this means that

$$374=458+(150+75)-X$$

$$374=458+225-X$$

$$374=683-X \text{ this means}$$

$$X=683-374$$

$$X= 309 \text{ ending inventory}$$

Account	Debit amount £	Credit amount £
Cash	323	
Capital		1049
Purchases Goods	225	
Opening Inventory	458	
Office expenses	3	
Sales Goods		412
Wages	58	
Harvey	138	
Moon	26	
Furniture & Fixings	230	
<i>Total</i>	<i>1461</i>	<i>1461</i>

Closing Inventory at 31 Jan was evaluated at 309

Statement of Profit or Loss on 31 Jan

Account name	Debit Amount £	Credit Amount £
Sales Goods (Revenue)		412

Less cost of goods sold:		
Opening Inventory	458	
Purchases Goods	225	
Less Closing inventory	<u>309</u>	<u>374</u>
Gross profit		<u>38</u>
Less Expenses		
Wages	58	
Office expenses	3	
Net Loss		<u>23</u>

Statement of financial position at 31 January

	Debit Amount £	Credit Amount £
Assets		
Non-Current		
Furniture & Fixings	230	
Current Assets		
Closing inventory	309	
Cash Account	323	
Receivable:		
Harvey	138	
Moon	26	
Capital		1049
Less: Net Loss		23
New Capital		<u>1026</u>
Liabilities		0
<i>Total (Assets = Capital + Liabilities)</i>	1026	1026

Task 4

Cash					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
22 June	Sales Goods	6000	25 June	Georgina	11160
24 June	Claire	7125	27 June	Andrew	4410
25 June	Hywel	9000	27 June	Balance c/d	6555
Total		22125	Total		22125
28 June	Balance b/d	6555			

Discount Allowed					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
22 June	Claire	375	27 June	Balance c/d	525

24 June	Mandy	150			
Total		525	Total		525
28 June	Balance b/d	525			

Discount Received					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
27 June	Balance c/d	930	13 June	Georgina	840
			22 June	Andrew	90
Total		930	Total		930
			28 June	Balance b/d	930

Sales Goods					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
27 June	Balance c/d	28500	2 June	Claire	8500
			14 June	Hywel	9000
			21 June	Cash	6000
			24 June	Mandy	5000
Total		28500	Total		28500
			28 June	Balance b/d	28500

Purchased Goods					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
13 June	Georgina	12000	27 June	Balance c/d	16500
21 June	Andrew	4500			
Total		16500	Total		16500
28 June	Balance b/d	16500			

Claire					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
2 June	Sales Goods	8500	22 June	Discount Allowed	375
			22 June	Sales Return	1000
			24 June	Cash	7125
Total		8500	Total		8500

Georgina					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
13 June	Discount Received	840	13 June	Purchases Goods	12000
24 June	Cash	11160			
Total		12000	Total		12000

Hywel					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
14 June	Sales Goods	9000	25 June	Cash	9000
Total		9000	Total		9000

Sales Return					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
22 June	Claire	1000	27 June	Balance c/d	1000
Total		1000	Total		1000
28 June	Balance b/d	1000			

Mandy					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
24 June	Sales Goods	5000	24 June	Discount Received	150
			27 June	Balance c/d	4850
Total		5000	Total		5000
28 June	Balance b/d	4850			

Andrew					
Debit			Credit		
Date	Account	Amount £	Date	Account	Amount £
21 June	Discount Received	90	21 June	Purchases Goods	4500
27 June	Cash	4410			
Total		4500	Total		4500

Trial Balance at 27 June

Account	Debit Balance £	Credit Balance £
Cash	6555	
Discount Allowed	525	
Discount Received		930
Purchases Goods	16500	
Sales Goods		28500
Sales Return	1000	
Mandy	4850	
Total	29430	29430

Task 5

In order to differentiate the expenditures into capital expenditure or revenue expenditure, “the concept of materiality will shape how we classify expenses” (Wood & Horner, 2010, p. 90) relevant to IAS 17 and IAS 38.

“Capital expenditure – Expenditure on the purchase of, and any additional costs involved in the improvement, installation and acquisition of non-current assets” (Wood & Horner, 2010, p. 93). This means that capital expenditure is the expense where a company buys fixed assets or add value to existing fixed assets. The capital expenditure will include the price of the fixed assets and any costs involved into getting the fixed asset into usable condition according to Wood & Horner (2010).

“Revenue Expenditure- Expenditure involved in the day to day running of a business” (Wood & Horner, 2010, p. 93). This means that revenue expenditure does not add value to the non-current assets and are experienced daily and will be attributed on specific time period (e.g. wages). According to Wood & Horner (2010) the purchase of stock would be counted as an expenditure because “it is not meant to be kept in the business” (Wood & Horner, 2010, p. 89).

“Accounting standards are a set of continually evolving documents which provide guidance on various aspects of financial accounting” (Wood & Horner, 2010, p. 5)

“IAS 17 (leases) categorise leases as either operating leases or finance leases. An operating lease is usually a short-term lease in which the risk and rewards remain with the lessor (the original supplier of the asset). A financial lease is more a long-term arrangement whereby the risks and rewards of the asset are transferred to the lease (the business which is paying to lease the asset)” (Wood & Horner, 2010, p. 91). According to Wood & Horner (2010) operating leases are treated as an expenditure and finance leases are treated as revenue (the finance charge on the lease is treated as revenue expense in the case of finance lease) and capital expenditure.

IAS 38 (Intangible assets) splits expenditure on research and development thus:

- “Research expenditure -treated as revenue expenditure unless the research expenditure involves capital expenditure on non-current assets – e.g. research facilities” (Wood & Horner, 2010, p. 92).
- “Development expenditure – treated as an expense or treated as capital expenditure on the statement of financial position if it can be established that the development expenditure will

lead to an intangible asset that can be valued reliably and can be either used or sold” (Wood & Horner, 2010, p. 91).

Bibliography

Wood, F. & Horner, D., 2010. *Frank Wood's Business Accounting Basics*. London: Financial Times Prentice Hall / Pearson.