

University of Wales Trinity Saint David

ACCOUNTING FUNDAMENTALS

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Introduction

Accounting is an economic information system whose main purpose is to create, process, systemize, summarize, and use information about business facts and business processes. The accounting is very important part of a company. It's practice and body of knowledge concerned primarily with methods for recording transactions, performing internal audits, keeping financial records, reporting and analyzing financial information, and advising on tax issues. It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity. Accounting provides information on the resources available to a firm, the means employed to finance those resources, and the results achieved through their use.

Accounting principles

The accounting principles compose the substructure upon which the consummate suite of accounting standards have been built. The best-kenned of these principles are as follows:

Accrual principle.

This is the concept that accounting transactions should be recorded in the accounting periods and is very important to recorded when they genuinely occur, rather than in the periods when there are cash flows associated with them. This is the substructure of the accrual substructure of accounting. It is consequential for the construction of financial verbalizations that show what genuinely transpired in an accounting period, rather than being artificially delayed or expedited by the associated cash flows.

Conservatism principle.

This is the concept that you should record expenses and liabilities as anon as possible, but to record revenues and assets only when you are sure that they will occur. This introduces a conservative slant to the financial verbal expressions that may yield lower reported profits, since revenue and asset apperception may

be delayed for some time. Conversely, this principle inclines to inspire the recordation of losses earlier, rather than later.

Consistency principle.

This is the concept that, once you adopt an accounting principle or method, you should perpetuate to utilize it until a demonstrably better principle or method comes along. Not following the consistency principle betokens that a business could continually jump between different accounting treatments of its transactions that makes its long-term financial results prodigiously arduous to discern.

Cost principle.

This is the concept that a business should only record its assets, liabilities, and equity investments at their pristine purchase costs. This principle is becoming less valid, as a host of accounting standards are heading in the direction of adjusting assets and liabilities to their fair values.

Economic entity principle.

This is the concept that the transactions of a business should be kept separate from those of its owners and other businesses. This averts intermingling of assets and liabilities among multiple entities, which can cause considerable difficulties when the financial verbal expressions of a fledgling business are first audited.

Full disclosure principle.

This is the concept that you should include in or alongside the financial verbalizations of a business all of the information that may impact a reader's understanding of those verbal expressions. The accounting standards have greatly amplified upon this concept in designating a gargantuan number of informational disclosures.

Task 1

Cost accounting is an accounting method targeted at recording the cost of production of a company by analyzing the input costs of each production step as well as fixed costs, such as capital equipment amortization. Cost accounting will first individually measure and record these charges, then compare input results to output or actual results to assist company management measure financial results.

Whilst also cost accounting is often used within a company to assist in decision-making, **financial accounting** is typically seen by the external investor community. Financial accounting is another cost and financial performance representation that includes the assets and liabilities of a company. Cost accounting can be most advantageous as a tool for budgeting and cost control management.

A **profit and loss account** included credits (which includes turnover and other income) and deducted debits (which includes allowances, cost of sales and overheads). These are used to find bottom line figure – either net profit or net loss.

Plan:

- Making a Cash Book/ Journal,
- Posting of the Journal in ledger,
- Extracting trial balance from the journal
- Making the financial statements - profit and loss account and the balance sheet

Cash book for Maxim Commenced Trading

Date	Description	Cash	Date	Description	Cash £
5/04	Starting capital	300.00	7/04	Goods purchase	200.00
8/04	Loan from Tatiana	250.00	15/04	Purchase Van	150.00
20/04	Sold goods	350.00	28/04	Paid Rent	50.00
30/04	Goods	100.00	29/04	Repaid part of loan	200.00
			30/04	Took cash	60.00
		1000.00			660.00
			30/04	<u>Balance</u>	340.00
	Total	1000.00			1000.00

Bank

Date	Debit	£	Date	Credit	£
5/04	Cash	300.00	7/04	Goods	200.00
8/04	Loan	250.00	15/04	Van	150.00
20/04	Sold good	350.00	28/04	Rent	50.00
			29/04	Repair	200.00
			30/04	Cash	60.00
			30/04	<u>Balance</u>	240.00
	Total	900.00			900.00

Journal

Date	Description	Debit £	Credit £
05/04	Cash A/C To capital A/C	300.00	300.00
07/04	Purchase A/C To cash A/C	200.00	200.00
08/04	Cash A/C To loan A/C	250.00	250.00
15/04	Motor van A/C To cash A/C	150.00	150.00
20/04	Cash A/C To sales A/C	350.00	350.00
28/04	Rent paid To cash A/C	50.00	50.00
29/04	Loan A/C To cash A/C	200.00	200.00
30/04	Drawing A/C To cash A/C	60.00	60.00
	Total	1,560.00	1,560.00

LEDGER A/C's

CASH A/C					
Date	Description	£	Date	Description	£
05/04	to capital A/C	300.00	07/04	By purchase A/C	200.00
08/04	to loan A/C	250.00	15/04	by motor van	150.00
20/04	to sales A/C	350.00	28/04	by rent paid A/C	50.00
			29/04	by loan paid	200.00
			30/04	by drawings	60.00
			30/04	by bal b/d	240.00
	Total	900.00			900.00

Capital a/c					
Date	Description	£	Date	Description	£
			05/04	by cash A/C	300.00
30/04	to bal b/d	300.00			
	Total	300.00			300.00

Purchase a/c					
Date	Description	£	Date	Description	£
07/04	to cash A/C	200.00			
			30/04	by bal b/d	200.00
	Total	200.00			200.00

Loan a/c					
Date	Description	£	Date	Description	£
29/04	to cash A/C	200.00	08/04	by cash A/C	250.00
30/04	to bal b/d	50.00			
	Total	250.00			250.00

Van a/c					
Date	Description	£	Date	Description	£
15/04	to cash A/C	150.00			
			30/04	by bal b/d	150.00
	Total	150.00			150.00

Sales a/c					
Date	Description	£	Date	Description	£
			20/04	by cash A/C	350.00
30/04	to bal b/d	350.00			
	Total	350.00			350.00

Rent a/c					
Date	Description	£	Date	Description	£
28/04	to cash A/C	50.00			
			30/04	by bal b/d	50.00
	Total	50.00			50.00

Drawing A/C					
Date	Description	£	Date	Description	£
30/04	to cash A/C	60.00			
			30/04	by bal b/d	60.00
	Total	60.00			60.00

TRIAL BALANCE

Description	DEBIT £	CREDIT £
Cash A/C	240.00	
Capital A/C		300.00
Purchase A/C	200.00	
Loan A/C		50.00
Van A/C	150.00	
Sales A/C		350.00
Rent A/C	50.00	
Drawing A/C	60.00	
Total	700.00	700.00

PROFIT AND LOSS A/C

Description	£	Description	£
to purchase A/C	200.00	by sales A/C	350.00
to rent A/C	50.00		
to profits	100.00		
Total	350.00		350.00

BALANCE SHEET

Liabilities	£	Asset	£
Capital (WN)	340.00	Motor van a/c	150.00
Loan	50.00	Cash a/c	240.00
Total	390.00		390.00

Working note: Capital £ 300 (+) Net profits £100 (-) Drawings £60

TOTAL: £ 340

Task 2

A profit and loss account

This method shows a company's revenue and expenses over a particular period of time, typically either one month or consolidated months over a year. These figures show whether your business has made a profit or a loss over that time period.

Profit and loss accounts show your total income and expenses, and also shows whether your business has earned more income than it has spent on its running costs. If that is the case, then your business has made a profit.

The profit and loss account represents the profitability of a business. It cannot, for example, show you if you are running out of cash as you build stock. For this sort of insight, you'll need a balance sheet.

The profit and loss account is also known as a P&L report, an income statement, a statement of operation, a statement of financial results, or an income and expense statement.

Plan:

- Making a Journal,
- Posting of the journal in ledger,
- Extracting trial balance from the ledger
- Making the financial statements - profit and loss account and the balance sheet

Journal

Date	Particular	DEBIT £	CREDIT £
01/01	Cash A/C to capital A/C	5,000.00	5,000.00
02/01	Motor van A/C to cash A/C	600.00	600.00
03/01	Purchase A/C to cash A/C	1,300.00	1,300.00
04/01	Cash A/C	1,000.00	

	to loan A/C		1,000.00
10/01	Motor van A/C to cash A/C	200.00	200.00
13/01	Cash A/C to sales A/C	300.00	300.00
20/01	Cash A/C to sales A/C	500.00	500.00
24/01	Expenses A/C to Cash A/C	150.00	150.00
27/01	Loan A/C to Cash A/C	350.00	350.00
30/01	Drawing A/C To Cash A/C	175.00	175.00
	Total	9,575.00	9,575.00

LEDGER A/C's

Cash a/c					
Date	Particular	£	Date	Particular	£
01/01	to capital A/C	5,000.00	02/01	by motor van	600.00
04/01	to loan A/C	1,000.00	03/01	By purchase A/C	1,300.00
13/01	to sales A/C	300.00	10/01	to motor van	200.00
20/01	to sales A/C	500.00	24/01	to expenses	150.00
			27/01	by loan a/c	350.00
			30/01	by drawings	175.00
			31/01	by bal b/d	4,025.00
	Total	6,800.00			6,800.00

Capital a/c					
Date	Description	£	Date	Description	£
			01/01	by cash A/C	5,000.00
31/01	to bal b/d	5,000.00			
	Total	5,000.00			5,000.00

Motor van a/c					
Date	Description	£	Date	Description	£
02/01	to cash A/C	600.00			
10/01	to cash A/C	200.00			
			31/01	by bal b/d	800.00
	Total	800.00			800.00

Purchase a/c					
Date	Description	£	Date	Description	£
03/01	to cash A/C	1,300.00			
			31/01	by bal b/d	1,300.00
	Total	1,300.00			1,300.00

Loan a/c					
Date	Description	£	Date	Description	£
27/01	to cash A/C	350.00	04/01/19	by cash A/C	1,000.00
31/01	to bal b/d	650.00			
	Total	1,000.00			1,000.00

Sales a/c					
Date	Description	£	Date	Description	£
			13/01	to cash a/c	300.00
31/01	to bal b/d	800.00	20/01	to cash a/c	500.00
Total		800.00			800.00

Expense a/c					
Date	Description	£	Date	Description	£
24/01	to cash A/C	150.00			
			31/01	by bal b/d	150.00
Total		150.00			150.00

Drawing a/c					
Date	Description	£	Date	Description	£
30/01	to cash A/C	175.00	31/01	by bal b/d	175.00
	Total	175.00			175.00

TRIAL BALANCE

Description	DEBIT £	CREDIT £
Cash a/c	4,025.00	
Capital a/c		5,000.00
Motor van a/c	800.00	
Purchase a/c	1,300.00	
Loan a/c		650.00

Sales a/c		800.00
Expense a/c	150.00	
Drawings a/c	175.00	
Total	6,450.00	6,450.00

PROFIT AND LOSS A/C

Description	£	Description	£
to purchase A/C	1,300.00	by sales A/C	800.00
to expenses	150.00	by loss	650.00
Total	1,450.00		1,450.00

BALANCE SHEET			
Liabilities	£	Asset	£
Capital (WN)	4,175.00	CASH A/C	4,025.00
loan	650.00	MOTOR VAN A/C	800.00
Total	4,825.00		4,825.00

Working note

Capital £5000 (-) Net loss £650 (-) Drawings £175

Total: £ 4,175

Task 3

Plan:

Making a Journal,

Posting of the journal in ledger,

Extracting trial balance from the ledger accounts

Making the financial statements that is profit and loss account and the balance sheet

Journal

Date	Description	DEBIT £	CREDIT £
02/01	Harvey a/c to sales a/c	124.00	124.00
05/01	Wages a/c to cash a/c	12.00	12.00
	Purchase a/c to rich a/c	150.00	150.00
07/01	Cash a/c to smith a/c	18.00	18.00
09/01	Max a/c to cash a/c	21.00	21.00
11/01	Cash a/c to sales a/c	64.00	64.00
14/01	Wages a/c to cash a/c	14.00	14.00
	Purchase a/c to cash a/c	75.00	75.00
15/01	Rich a/c to cash a/c	162.00	162.00

20/01	Office expenses a/c to cash	32.00	32.00
21/01	Wages a/c to cash a/c	17.00	17.00
	Cash a/c to sales a/c	110.00	110.00
23/01	Office expenses a/c to cash a/c	3.00	3.00
	Cash a/c to Harvey a/c	25.00	25.00
28/01	Cash a/c to sales	84.00	84.00
	Wages a/c to cash	15.00	15.00
31/01	Cash a/c to sales	30.00	30.00
	Total	956.00	956.00

LEDGER A/C's

Harvey a/c					
Date	Description	£	Date	Description	£
01/01	to bal b/d	39.00	23/01	by cash A/C	25.00
02/01	to sales A/C	124.00	31/01	By bal b/d	138.00
	Total	163.00			163.00

Sales a/c					
Date	Description	£	Date	Description	£
			02/01	by Harvey	124.00
			11/01	by cash A/C	64.00
			21/01	by cash A/C	110.00
			28/01	by cash A/C	84.00
31/01	to bal b/d	412.00	31/01	by cash A/C	30.00
	Total	412.00			412.00

Wages a/c					
Date	Description	£	Date	Description	£
05/01	to cash A/C	12.00			
14/01	to cash A/C	14.00			
21/01	to cash A/C	17.00			
28/01	to cash A/C	15.00	31/01	by bal b/d	58.00
	Total	58.00			58.00

Cash a/c					
Date	Description	£	Date	Description	£
07/01	to smith a/c	18.00	05/01	by wages	£2.00
11/01	to sales A/C	64.00	09/01	by max	21.00
21/01	to sales A/C	110.00	14/01	by wages	14.00
23/01	to Harvey	25.00	14/01	By purchase A/C	75.00
28/01	to sales A/C	84.00	15/01	by rich	162.00
31/01	to sales A/C	30.00	20/01	by office expense	32.00
			21/01	by wages	17.00

			23/01	by office expenses	3.00
31/01	to bal b/d	20.00	28/01	by wages	15.00
	Total	351.00			351.00

Purchase a/c					
Date	Description	£	Date	Description	£
05/01	to rich a/c	150.00			
14/01	to cash A/C	75.00	31/01	by bal b/d	225.00
	Total	225.00			225.00

Rich a/c					
Date	Description	£	Date	Description	£
15/01	to cash A/C	162.00	01/01	by bal b/d	12.00
			05/01	By purchase A/C	150.00
	Total	162.00			162.00

Smith a/c					
Date	Description	£	Date	Description	£
01/01	to bal b/d	18.00	07/01	by cash A/C	18.00
	Total	18.00			18.00

Max a/c					
Date	Description	£	Date	Description	£
09/01	to cash A/C	21.00	01/01/19	by bal b/d	21.00
	Total	21.00			21.00

Office expense a/c

Date	Description	£	Date	Description	£
20/01	to cash A/C	32.00			
23/01	to cash A/C	3.00	31/01/19	by bal b/d	35.00
	Total	35.00			35.00

TRIAL BALANCE

Particulars	DEBIT £	CREDIT £
Sales		412.00
Wages	58.00	
Cash		20.00
Purchase	225.00	
Office expense	35.00	
Suspense A/C	114.00	
Total	432.00	432.00

PROFIT AND LOSS A/C			
Particular	£	Particular	£
to purchase A/C	225.00	by sales A/C	412.00
to wages	58.00		
to office expenses	35.00		
to net profit	94.00		
Total	412.00		412.00

BALANCE SHEET

Liabilities	£	Asset	£
Capital(WN)	1,043.00	Harvey a/c	138.00
Suspense a/c	114.00	inventory	458.00
		furniture and fittings	198.00
		CASH A/C	20.00
		cash in hand	343.00
Total	1,157.00		1,157.00

Working note:

Since the capital was not given so it was calculated using a formula

Total Assets – Liabilities which included:

Harvey + Inventory + Furniture & Fittings + Cash + Cash in hand (-) {Suspense a/c}

that is $138+458+198+20+343-(114) = \text{Total: } 1,043$

Task 4

Plan:

- Making a Journal,
- Posting of the journal in ledger,
- Extracting trial balance from the ledger accounts

Date	Description	DEBIT £	CREDIT £
02/06	Claire a/c to sales	8,075.00	8,075.00
13/06	Purchase a/c to Georgina	1,1160.00	1,1160.00
14/06	Hywel a/c to sales a/c	8,550.00	8,550.00
20/06	Cash a/c to sales	6,000.00	6,000.00
21/06	Purchase a/c to Andrew	4,410.00	4,410.00
22/06	Sales return a/c to Claire	1,000.00	1,000.00
24/06	Cash a/c to sales	4,850.00	4,850.00
	Cash a/c to Claire	7,075.00	7,075.00
25/06	Cash a/c to Hywel	8,550.00	8,550.00
	Georgina a/c to cash	1,1160.00	1,1160.00

27/06	Andrew a/c to cash	4,410.00	4,410.00
Total		75,240.00	75,240.00

LEDGER

CASH A/C					
Date	Particular	£	Date	Particular	£
20/06	to sales A/C	6,000.00	25/06	by Georgina	1,1160.00
24/06	to sales A/C	4,850.00	27/06	by Andrew	4,410.00
24/06	to Claire	7,075.00			
25/06	To Hywel	8,550.00	27/06	by bal b/d	10,905.00
	Total	26,475.00			26,475.00

SALES A/C					
Date	Particular	£	Date	Particular	£
			02/06	by Claire	8,075.00
			14/06	by cash A/C	6,000.00
27/06	to bal b/d	18,925.00	24/06	by cash A/C	4,850.00
	Total	18,925.00			18,925.00

PURCHASE A/C					
Date	Particular	£	Date	Particular	£
13/06	to Georgina	11,160.00			
21/06	to Andrew	4,410.00	27/06	by bal b/d	15,570.00

	Total	15,570.00			15,570.00
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Claire a/c					
Date	Particular	£	Date	Particular	£
02/06	to sales A/C	8,075.00	22/06	by sales return	1,000.00
			24/06	by cash A/C	7,075.00
	Total	8,075.00			8,075.00

Georgina a/c					
Date	Particular	£	Date	Particular	£
25/06	to cash A/C	11,160.00	13/06	By purchase A/C	11,160.00
	Total	11,160.00			11,160.00

Hywel a/c					
Date	Particular	£	Date	Particular	£
14/06	to sales A/C	8,550.00	25/06	by cash A/C	8,550.00
	Total	8,550.00			8,550.00

Andrew a/c					
Date	Particular	£	Date	Particular	£
27/06	to cash A/C	4,410.00	21/06	By purchase A/C	4,410.00
	Total	4,410.00			4,410.00

Sales return a/c					
Date	Particular	£	Date	Particular	£
22/06	to Claire	1,000.00	27/06	by bal b/d	1,000.00
	Total	1,000.00			1,000.00

TRIAL BALANCE

PARTICULAR	DEBIT	CREDIT
	£	£
Cash	10,905.00	
Sales		18,925.00
Purchase	15,570.00	
Sales return	1,000.00	
Suspense a/c		8,550.00
Total	27,475.00	27,475.00

Task 5

1. Capital expenditures are major investments made by a company to expand its business. Examples include long-term assets, such as facilities and manufacturing equipment. Typically, they are one-time costs. A long-term asset generates income for years, so its full cost cannot be deducted in the year it's incurred. Instead, companies recover the cost through year-by-year depreciation of the asset's useful life.

2. Revenue expenses cover a business' ongoing operational costs. They're recurring and short-term. Revenue expenses can be fully tax-deducted in the year they're incurred. They include repair charges, renewals, and even repainting. They're the maintenance costs paid by a business to keep its long-term assets functioning properly. Capital expenditures appear as an asset on a company's balance sheet. Revenue expenses are listed with liabilities.

Basis	Capital expenditure	Revenue expenditure
Meaning	It is the amount spend on the goods and services which are used for a longer duration like more than one year (Collis, Holt and Hussey, 2017).	It is that amount which is spend on goods and services which is consumed for a shorter period of time that is within a year.
Nature	It is non recurring in nature	It is recurring in nature
Need	The need is to improve the capacity of the business and to grow the business.	Here the need is to run the existing business capacity properly
Duration	It covers those expenditure which are for more than a year.	This covers expenditure which are incurred for within a year (Bui, Arena, and McCutcheon, 2015).
Impact in financial statement	It will be shown in the balance sheet.	It will be shown in the trading A/C and profit and loss A/C
Capitalization	All these expenditure are capitalized	These types of expenditure are

		not capitalized.
Benefits	These expenditures gives benefits in the current year as well as in the future also (Smith, and Smith, 2014).	This type expenditure drives benefits only for current year.
Purpose	The purpose of incurring these expenditure is to purchase asset with a useful life beyond the current year	The purpose of incurring this expenditure is to meet to going cost of running a business (Burritt, and Christ, 2016).
Tax treatment	It is deducted over time as the assets depreciates	It is deducted in the current year tax only
Earning capacity	It results in increase of earning capacity of the business	It does not increase the earning capacity but it helps in maintaining the existing capacity of the business
Assets	This expenditure results in the acquisition of the assets and are used for earning profits (Churyk, and Stenka, 2014).	The revenue expenditure does not result in the acquisition of the asset and regarded as expenses
Physical existence	It has a physical existence except for intangible assets	These expenditure does not have any traces of physical existence
Amount shown	A portion of capital expenditure is usually shown in the trading and profit and loss account and in the balance sheet on the asset side.	Whereas the revenue expenditure is shown as the whole amount in the income statement or profit and loss account
Revenue	This expenditure does not reduce the revenue of the business.	This type of revenue impacts the revenue of the organisation and leads to a reduction in the level of the revenue (Bedford and Ziegler, 2016).

CONCLUSION

The report analysed the importance and relevance of the accounting process in the business. It is important because it performs many function like recording the transaction in journals. Also the report with help of a practical example outlined the whole process of accounting. At last the report highlighted difference between the capital expenditure and the revenue expenditure.

Accounting is the process that helps an organisation in collecting, analysing, recording, summarizing and reporting the data that are relevant for the recording of the financial transaction.

Posting them in ledger and then making the trial balance out of the ledger accounts. And at last preparing the financial statements which is profit and loss account and balance sheet with the help on trial balance.

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