

Accounting fundamentals

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INTRODUCTION

Accounting is the basic concept in any organisation that gives ideas to maintain various accounts and ledger in order to run a business. Fundamental accounting refers basic concept that helps to attain company's objectives by following accounting concept and convention (Barranco and et.al., 2016). The main purpose of this report is to prepare ledger accounts, trial balance and profit and loss accounts that will show enterprise's financial situation and will help to take financial decision. It involves several guidelines such as generally accepted accounting principles GAAP that helps to understand by accountant and users to be followed (Sacco, 2017). In this report various topics and calculation will be covered that will define company's financial position after preparing accounts. This report also will define difference between revenue and capital expenditure by following international accounting standards. (Basrur, 2017).

Task 1

Journal entry: This is recording of financial data that is taken from journal voucher by concerning business transaction in journal like debit equal credit (Reible, 2017). Moreover, it helps to analyse effects of transaction on an enterprise's financial position. It helps to show financial position of organisation by maintaining accounts (Grunwald, 2017).

Ledger posting: It is the second step after preparing journal entries that helps to transfer entries in journal into accounts of ledger. It helps to classifying stage of accounting and its transaction. Moreover, this is connected with initial information of business transaction (Kanodia and Sapra, 2016).

(a) Ledger accounts with the help of accounting transaction of Maxim

Date	Particular		Debit amount (£)	Credit amount (£)
5th April	Cash a/c		300	
		To capital		300
5th April	Purchase a/c		200	
		To cash a/c		200

5th April	Cash a/c		250	
		Received loan from Tatiana		250
5th April	Purchase a/c		150	
		To cash a/c		150
5th April	Cash a/c		350	
		To sale a/c		350
5th April	Rent a/c		50	
		To cash a/c		50
5th April	Loan a/c		200	
		To cash a/c		200
5th April	Drawing a/c		60	
		To cash a/c		60

Cash a/c

Date	Particular	Amount	Date	Particular	Amount
5th April	To capital a/c	300	5th April	By purchase a/c	200

5th April	To loan received from Tatiana	250	5th April	By motor van	150
5th April	To sales	350	5th April	By rent	50
			5th April	By loan paid	200
			30th April	By drawing	60
			30th April	By closing balance	240
		900			900

		Capital a/c			
Date	Particular	Amount	Date	Particular	Amount
30th April	To drawing	60	5th April	By cash	300
30th April	To closing balance	240			
		300			300

**Purchase
a/c**

Date	Particular	Amount	Date	Particular	Amount
5th April	To cash	200	30th April	By trading a/c	200
		200			200

		Loan a/c			
Date	Particular	Amount	Date	Particular	Amount
5th April	To cash	200	5th April	By cash	250
	To closing balance	50			
		250			250

Motor van

Date	Particular	Amount	Date	Particular	Amount
5th April	To cash	150	30th April	By closing balance	150
		150			150

Sale a/c

Date	Particular	(£) Amount	Date	Particular	(£) Amount
5th April	To trading a/c	350	5th April	By cash	350
		350			350

Rent a/c

Date	Particular	(£)Amount	Date	Particular	(£) Amount
5th April	To cash	50	5th April	By P&L a/c	50
		50			50

Drawing
A/c

Date	Particular	(£) Amount	Date	Particular	(£) Amount
5th April	To cash a/c	60	5th April	By capital a/c	60
		60			60

(b) Trial balance of Maxim

Serial .N.	Particulars	Debit (£)Amount	Credit (£)Amount
1	Cash a/c	240	
2	Capital		240
3	Purchase	200	
4	Loan		50
5	Motor van	150	
6	Sales		350
7	Rent	50	
	Total	640	640

(c) Income statement and financial statement of Maxim

Particular	Amount
Sales	350
(-) Cost of good sold	-100
(Purchase price - closing stock)	

Gross profit	250
Paid rent	50
NET PROFIT	200

Financial statement end of year that shows financial position

ASSETS	
Non Current assets	
Motor Van	150
Current assets	
Cash	240
Closing stock	100
Total assets	490
LIABILITIES	
Capital 240	
(+)profit 200	440
Loan amount	50
Total liabilities	490

Task 2

(a) Pendo's Ledger account with the helps of above mentioned transaction including date and description

Journal entries

Date	Particulars	(£)amount	(£)amount
1 st January	Cash a/c	5000	

		To capital a/c		5000
	(Invested capital)			
2 nd January	Motor van		600	
		To cash a/c		600
	(Being motor van purchased)			
3 rd January	Purchase a/c		1300	
		To cash a/c		1300
	(Being purchase made)			
4 th January	Cash a/c		1000	
		To loan form Sergei a/c		1000
	(Loan received from Sergie)			
10 th January	Motor expenses		200	
		To cash a/c		200
	(Being motor expenses paid)			
13 th January	Cash a/c		300	
		To sales		300
	(goods sold)			
20 th January	Cash a/c		500	
		To sales		500
	(goods sold)			
24 th January	Storage Expenses a/c		150	
		To cash a/c		150
	(being storage expenses paid)			
27 th January	Loan a/c		350	

		To cash a/c		350
	(payment of loan taken)			
30 th January	Drawing a/c		175	
		Cash		175
	(with drawl from business)			

Ledger accounts

Cash A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
1 st January	To capital a/c	5000	2 nd January	By motor van	600
4 th January	To loan form sergri	1000	3 rd January	By Purchase	1300
13 th January	To sales	300	10 th January	By motor expenses	200
20 th January	To sales	500	24 th January	By storage expenses	150
			27 th January	By repayment of loan	350
			30 th January	By drawing	175
			31 st January	By closing balance	4025
		6800			6800

Motor A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
2 nd January	To Cash	600	31 st January	By closing balance	600

		600			600
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Purchase a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
3 rd January	To Cash	1300	31 st January	By trading a/c	1300
		1300			1300

Loan form Sergie A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
27 th January	To Cash	350	4 th January	By cash	1000
31 st January	To balance c/d	650			
		1000			1000

Sales A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
31 st January	To trading a/c	800	13 th January	By cash	300
			20 th January	By cash	500
		800			800

Storage expenses A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
24 th January	To Cash	150	31 st January	By P&L a/c	150
		150			150

Drawing A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
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		31 st	
30 th January To Cash	175	January By Capital a/c	175
	175		175

Capital A/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
31 st January To Drawing		175	1 st January By cash		5000
31 st January To balance c/d		4825			
		5000			5000

Motor expenses

Date	Particular	Amount (£)	Date	Particular	Amount (£)
10 th January To Cash		200	31 st January By P&L a/c		200
		200			200

(b) Trial balance of Pendo as prepared on 31st January

Serial no.	Particulars	(£) Dr. amount	(£) Cr. amount
1	Cash	4025	-
2	Motor Van	600	-
3	Purchase	1300	-
4	Loan a/c	-	650
5	Sales a/c	-	800
6	Storage expenses	150	-
7	Capital	-	4825
8	Motor expenses	200	-
	Total	6275	6275

(c)Income statement and financial statement of Pendo company

Statement of profit and loss

	Particulars	(£)Amount
	Sale	800
(-)	Cost of good sold	500
	(Purchase amount -closing stock)	
	Gross profit	300
(-)	expenses	
	Storage	150
	Motor car expenses	200
	Net loss	-50

Financial statement that shows financial position

Non current assert	(£) Amount
Motor van	600
Current assets	
cash	4025
Stock	800
Total assets	5425
Equity	
Capital 4825	
(-)Net loss -50	4775
Current liability	

Loan taken form Sergei	650
Liabilities total	5425

Task 3

a) Mafuta's Ledger accounts

Cash a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	343	Jan, 5	By Wages a/c	12
Jan, 7	To Smith's a/c	18	Jan, 9	By Max's a/c	21
Jan, 11	To Sales a/c	64	Jan, 14	By Wages a/c	14
Jan, 21	To Sales a/c	110	Jan, 14	By Purchases a/c	75
Jan, 23	To Harvey's a/c	25	Jan, 15	By Rich's a/c	162
				By Fixtures and	
Jan, 28	To Sales a/c	84	Jan, 20	fittings a/c	32
Jan, 31	To Sales a/c	31	Jan, 21	By Wages a/c	17
			Jan, 23	By office expenses a/c	3
			Jan, 28	By Wages a/c	15
			Jan, 31	By Balance c/d	323
		674			674
Feb, 1	To Balance b/d	323			
Capital a/c					
Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Payables	33	Jan, 1	By Cash in hand a/c	343
Jan, 31	To balance c/d	1049		By Inventory	458
				By Furniture and	
				fittings	198
				By Receivables	83
		1082			1082

Fixtures and fittings a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	198	Jan, 31	By Balance c/d	230
Jan, 20	To cash a/c	32			
		230			230
Feb, 1	To Balance b/d	230			

Sales a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 31	To Trading a/c	412	Jan, 2	By Harvey's a/c	124
			Jan, 11	By Cash a/c	64
			Jan, 21	By Cash a/c	110
			Jan, 28	By Cash a/c	84
			Jan, 31	By Cash a/c	30
		412			412

Wages a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 5	To cash a/c	12	Jan, 31	Profit and loss a/c	58
Jan, 14	To cash a/c	14			
Jan, 21	To cash a/c	17			
Jan, 28	To cash a/c	15			
		58			58

Purchase a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 5	To <u>Rich's</u> a/c	150	Jan, 31	By Trading a/c	225
Jan, 14	To cash a/c	75			
		225			225

Office Expenses a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 23	To cash a/c	3	Jan, 31	Profit and loss a/c	3

Receivables from Smith's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	18	Jan, 7	By Cash a/c	18

Receivables from Harvey's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	39	Jan, 23	By Cash a/c	25
Jan, 2	To Sales a/c	124	Jan, 31	By Balance c/d	138
		163			163
Feb, 1	To Balance b/d	138			

Receivables from Moon's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
Jan, 1	To Balance b/d	26	Jan, 31	By Balance c/d	26
Feb, 1	To Balance b/d	26			

Payable to Max's a/c

Date	Particular	Amount (£)	Date	Particular	Amount (£)
9 th jan	To cash a/c		21 1 st jan	By Balance b/d	21

Payable to Rich's A/c

Date	Particular	(£)Amount	Date	Particular	(£)Amount
15 th jan	To cash a/c	162	1 st jan	By Balance b/d	12
			5 th jan	By purchase a/c	150
		162			162

Inventory a/c

Date	Particular	(£)Amount	Date	Particular	(£) Amount
1 st Jan	To Balance B/d	458	31 st jan	By Trading A/c	458
31 st jan	To Trading A/c	374	31 st jan	By Balance c/d	374
1 st Feb	To Balance B/d	374			

b) Trial balance prepared as on 31st January of Mafuta

Trial Balance at 31 January

Particulates	Dr. (£)	Cr.(£)
Cash in hand A/c	323	-
Capital A/c	-	1049
Fittings and fixtures a/c	230	-
Sales A/c	-	412
Wages A/c	58	-
Purchase A/c	225	-
Office expenses A/c	3	-
Receivables A/c	-	-
Harvey	138	-
Moon	26	-

Inventory a/c	458	-
	1461	1461

(c) Mafuta's Profit and loss statement and financial position statement as on 31st January

Statement of Profit and Loss

as on 31st janauary

Particulates		(£)Amount
Sales		412
(-) Cost of sales		309
Gross profit		103
(-) Expenses / spendings		
Wages	58	
Office Expenses	3	61
Net Profit		42

Financial position Statement for the month ended on 31 January

Particulates		(£) Amount
Non current assets		
Fittings and fixtures		230
Current assets		
Stock	374	
Trade receivables (138+26)	164	
Cash	323	861
Total Assets		1091
Capital account	1049	

Add : Net Profit	42	1091
Total Liabilities		1091

Working note and caaculation:

Cost of good sold = Opening stock – Closing inventory

$$225 + 458 - 374 = 309$$

Task 4

(a) Recording of transaction and ledger accounts

Date	Particular		Debit amount	Credit amount
2 nd June	Claire a/c		8500	
		To sales a/c		8500
	(Being goods sold)			
13 th June	Purchase a/c		12000	
		To Georgina		12000
	(Being material purchased)			
14 th june	Hywel a/c		8550	
		To sales a/c		8550
	(Being sales are made)			
20 th June	Cash a/c		6000	
		To sales a/c		6000
	(goods sold at cash)			
21 st June	Purchase a/c		4500	
		To Andrew		4500
	(Being goods purchased)			

22 nd June	Sales return a/c		1000	
		To Claire a/c		1000
	(Being sales return are given)			
24 th June	Mandy a/c		5000	
		To sales a/c		5000
	(Being goods sold to mandy)			
24 th June	Cash a/c		7125	
	Discount allowed a/c		375	
		To Claire a/c		7500
	(Payment given by Claire)			
25 th june	Cash a/c		8550	
		To Hywel a/c		8550
	(Payment given to Hywel a/c)			
	Georgina		12000	
		To Cash		11160
		To discount received		840
	(Payment given to Georgina)			
27 th june	Andrew a/c		4500	
		To received Discount		90

		To cash		4410
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Ledger account

Sales A/c

date	Particular	(£) amount	date	Particular	(£) amount
30 th june	To Trading a/c	28050	2 nd june	By Claire	8500
			14 th june	By Hywel	8550
			20 th june	By cash	6000
			24 th june	By Mandy	5000
		28050			28050

Purchase A/c

date	Particular	(£) amount	date	Particular	(£) amount
13 th june	To Georgina	12000	30 th june	By Trading a/c	16500
21 st june	To Andrew	4500			
		16500			16500

Claire A/c

date	Particular	(£) amount	Particular	Amount
2 nd june	To sale	8500	By Cash	7125
			By discount allowed	375
		8500		8500

Georgina A/c

date	Particular	(£) amount	date	Particular	(£) amount
25 th june	To Cash	11160	13 th june	By Purchase	12000
	To Discount received	840			
		12000			12000

Hywel A/c

date	Particular	(£) amount	date	Particular	(£) amount
14 th june	To sales	8550	25 th june	By cash a/c	8550
		8550			8550

Andrew A/c

date	Particular	(£) amount	date	Particular	(£) amount
27 th june	To Cash	4410	21 st june	By Purchase a/c	4500
	To Discount received	90			
		4500			4500

Cash A/c

date	Particular	(£) amount	date	Particular	(£) amount
20 th june	To sales	6000	25 th june	By Georgian	11160
14 th june	To Hywel	8550	27 th june	By Andrew	4410
24 th june	To claire a/c	7125	30 th june	By Balance c/d	6105
		21675			21675

Sales return A/c

date	Particular	(£) amount	date	Particular	(£) amount
22 nd june	To claire a/c	1000	30 th june	By Trading a/c	1000
		1000			1000

Mandy A/c

date	Particular	(£) amount	date	Particular	(£) amount
24/06/18	To sales	5000	30/06/18	By Balance c/d	5000
		5000			5000

Discount allowed A/c

date	Particular	(£) amount	date	Particular	(£) amount
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24 th june To Claire	375	30 th june By P&L a/c	375
	375		375

ReceivedDiscount A/c

date	Particular	(£) amount	date	Particular	(£) amount
				By	
30 th june To P&L		930	25 th june Georgina		840
			27/06/19 By Andrew		90
		930			930

Trial balance

Particular	Dr.	Cr.
Sale		28050
Purchase	16500	
Cash	6105	
Received discount		930
Allowed discount	375	
Sale return	1000	
Mandy a/c	5000	
Total	28980	28980

Task 5

Difference between revenue and capital expenditure

Revenue expenditure: This means cost that relates to specific revenue transaction or operating periods, like as repairs and maintenance expenses, cost of good sold, etc. These expenses are charged in current period by adopting International accounting standard. International accounting standard are issued by IFRS foundation to provide a basic global language for business activities that helps to understand company's accounts easily (Labban, Liu and Chong, 2017). It involves carriage on selling goods, rent, salaries, wages production spends, legal expenses, free samples, printing expenses and commission.

Capital expenditure: This means money spends by an industry or corporation to purchase, maintain, control and improve its fixed assets like as building, motor vehicle, machinery, equipment or land (Lallemmand and Strauss, 2016). According to International accounting standard, it is expenditure of money and funds for an assets that hope to provide utility to a business for long period and more than one year. Moreover, capital expenditure are the long term expenses that are incurred by enterprise to acquire, raise and maintain physical existence of wealth, building and other fixed assets that can be see and touch (Parker and Northcott, 2016).

Difference between revenue and capital expenditure can be understand such as -

Basis	Revenue expenditure	Capital expenditure
Timing	Revenue expenses are charged by an organisation in current period or short period of time.	Capital expenditure are charged long period of time such as depreciation on fixed assets every year.
Consumed	Revenue spends are supposed to be consumed within a short period of time (Mc Millan, Rodrik and Sepulveda, 2017).	whereas capital expenditure are consumed for long period of time.
Size	Revenue expenditure contains small amounts of expenses to run a business.	where as capital expenditure need to contain large amounts of expenses to start a business.
Profits	This involves short term profits that arises from business activity.	It includes long term profits that incurred from business transactions.
Involvement	It contains repairing cost, repainting cost, renewal expenses, maintenance expenses, rent etc.	It contains purchase cost, installation cost, up gradation cost, delivery cost, legal charges and replacement cost.
Earning capacity	It helps to maintain earning capacity through short term investment.	It seeks to improve earning capacity by long term investment.
Matching concept	In revenue expenditure it follows matching concept.	Where as in capital expenditure it does not follow matching concept.

Benefit	It provides current year accounting benefits (Pan and Seow, 2016).	It provides more than one year benefits.
Shown in	This shown in income statement and balance sheet that shows profit and loss with financial data.	This shows only in income statement that shows profit and loss situation.

CONCLUSION

From above mentioned report it has been concluded that fundamental of accounting plays a crucial role in any firm that helps to give information about business's profit and loss position and maintain profits. This report covered different accounting concepts and principles that helps to evaluate the company's financial position by analysing financial statements. Any organisation can get financial information and knowledge about business activities that can be control in case of loss situation and create profit situation. Principles of accounting states rules and regulation that should be followed by any company in order to make profitable organisation.

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