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Introduction

in my report I performed the exercises that are to be done I tried to do what I learned in the lessons I performed with the professor, I did some research on Moodle to clarify everything and the exercises that we did in class and I did some research online for task number 5.

Task1

Maxim commenced trading in his bakery on 5 April. All his transactions were on a cash basis, as

Follows; 5 April Introduced cash into the business of £300

7 April Purchased goods for £200

8 April Received loan from Tatiana of £250 repayable within twelve

15 April Purchased a motor van for £150

20 April - Sold goods for £350

28 April - Paid rent of £50

29 April - Repaid part of the loan £200

30 April- Drew cash from the business £60.

Required:

- (a) Write up, balance and close the relevant ledger accounts for the above transactions.
- (b) Prepare the list of account balances at 30 April.
- (c) Prepare the statement of profit or loss for the month ended 30 April and a statement of financial position at that date.

(a)

GENERAL JOURNAL
Maxim
FOR THE MONTH OF APRIL

		£	£
Date	Description	Debit	Credit
05-Apr	Cash	£300	
	Capital		£300
07-Apr	Goods	£200	
	Cash		200
08-Apr	Cash	250	
	Loan (Tatiana)		250
15-Apr	Van	150	
	Cash		150
20-Apr	Cash	350	
	Revenue		350
28-Apr	Rent	50	
	Cash		50
29-Apr	loan (Tatiana)	200	
	Cash		200
30-Apr	Capital	60	
	Cash		60

(c)

Statement of Profit & Loss		
Revenue		£350
Cost of goods	£200	
Available for sale	£100	
Less; closing stock	£100	£100
Cost of goods sold		£250
Less rent		£50
Net profit		£200

(b)

Trial Balance		
Description	Debit DR	Credit CR
Cash	£240	
Capital		£240
Goods	£200	
Loan		£50
Revenue		£350
Van	£150	
Rent	£50	
Total	£640	£640

Cash	
£300	£200
£250	£150
£350	£50
	£200
	£60
£900	£660
£240	

Rent	
£50	

Van	
£150	

Loan (Tatiana)	
£200	£250
	£50

Capital	
	£300
£60	
	£240

Goods	
£200	
£200	

Cost of goods	
£100	

Revenue	
	£350

Task 2

You are given the following information on the first month's trading of Pendo, who is in business as a second-hand furniture dealer. All transactions are on a cash basis.

- 1 January Pendo paid £5,000 into the business
- 2 January Bought a motor van for £600
- 3 January Bought goods for £1,300
- 4 January Received a loan from Sergei £1,000 repayable within twelve
- 10 January Paid expenses on the motor van of £200
- 13 January Sold goods for £300
- 20 January Sold goods for £500
- 24 January Paid storage expenses £150
- 27 January Repaid Sergei part of his loan £350
- 30 January Withdrew cash from the business £175
- 31 January Closing inventory was £800

Required:

- (a) Write up the ledger accounts for the above transactions, including dates, descriptions and balances.**
- (b) Prepare the trial balance at 31 January.**
- (c) Prepare the statement of profit or loss for the month ended 31 January and a statement of financial position at that date.**

(a)

Journal			
Date	Description	Debit DR	Credit CR
01-Jan	Cash	£5,000	
	Capital		£5,000
02-Jan	Van	£600	
	Cash		£600
03-Jan	Goods	£1,300	
	Cash		£1,300
04-Jan	Cash	£1,000	
	Creditor (Sargei)		£1,000
10-Jan	Van expenses	£200	
	Cash		£200
13-Jan	Cash	£300	
	revenue		£300
20-Jan	Cash	£500	
	revenue		£500
24-Jan	Expenses	£150	
	Cash		£150
27-Jan	Loan(Sergei)	£350	
	Cash		£350
30-Jan	Capital	£175	
	Cash		£175

(b)

Trial Balance		
Description	Debit DR	Credit CR
Cash		£5,625
Capital	£4,825	
Goods	£500	
Expenses	£150	
Loan		£650
Van	£800	
Total	£6,275	£6,275

(c)

Description		
Sales Revenue		£800
Purchases	£1,300	
Ending goods	£800	
Cost of goods available	£500	£500
Gross profit		£300
Expenses		£350
Net profit		£50

Cash	
£1,000	£5,000
£300	£1,300
£500	£600
£175	£200
	£150
	£350
£1,975	£7,600
	£5,625

Expenses	
£150	

Van	
£600	
£200	
£800	

Capital	
£5,000	£175
£4,825	

Goods	
£1,300	£300
	£500
£1,300	£800
£500	

Credit (Sargei)	
£350	£1,000
	£650

Task 3

Mafuta is a retailer and on 1 January his assets were:

Cash in hand	£343
Inventory.	£458
Furniture and fittings	£198
Receivables	
Smith	£18
Harvey	£39
Moon	£26

His transactions during January were:

		£
2 January	Goods sold to Harvey on credit	124
5 January.	Paid wages.	12
	Bought goods on credit from Rich	150
7 January.	Smith settled his account	
9 January	Paid the amount owing to Max	
11 January	Cash sales	64
14 January	Paid wages	14
	Bought goods for cash	75
15 January.	Paid Rich for balance owing on his account	
20 January	Bought for cash a new office desk	32
21 January.	Paid wages	17
	Cash sales	110
23 January.	Paid office expenses	3
	Harvey paid on account	25
28 January	Cash sales	84

	Paid wages	15
31 January	Cash sales	30
	Inventory at cost was	374

Required:

- (a) Write up and close the relevant ledger accounts.
- (b) Extract a trial balance at 31 January.
- (c) Prepare a statement of profit or loss for the month ended 31 January and a statement of financial position at that date.

**GENERAL JOURNAL
MAFUTA RETAILERS
FOR THE MONTH OF JANUARY**

		£	£
Date	Description	Debit	Credit
02-Jan	Account Receivable (Harvey)	124	
	Sales		124
05-Jan	Wages expense	12	
	Cash		12
05-Jan	Goods/Inventory	150	
	Account Payables (Rich)		150
07-Jan	Cash	18	
	Account Receivable (Smith)		18
09-Jan	Account Payables (Max)	21	
	Cash		21
11-Jan	Cash	64	
	Sales		64
14-Jan	Wages expense	14	
	Cash		14
14-Jan	Goods/Inventory	75	
	Cash		75
15-Jan	Account Payables (Rich)	27	
	Cash		27
20-Jan	Furniture	32	
	Cash		32
21-Jan	Wages expense	17	
	Cash		17
21-Jan	Cash	110	

	Sales		110
23-Jan	Office Expense	3	
	Cash		3
23-Jan	Cash	25	
	Account Receivable (Harvey)		25
28-Jan	Cash	84	
	Sales		84
28-Jan	Wages expense	15	
	Cash		15
31-Jan	Cash	30	
	Sales		30

(b)

TRAIL BALANCE		
MAFUTA RETAILERS		
	Debit	Credit
Cash	458	
Inventory	374	
Furniture	230	
Accounts Receivables		
Smith	18	
Harvey	138	
Moon	26	
Account Payable		
Rich		135
Wages Expense	58	
Office Expense	3	
Sales		412
COGS	374	

(c)

Profit and Loss account MAFUTA RETAILERS FOR THE MONTH ENDED 31, JANUARY	
	£
Sales	412
COGS	374
Gross profit	786
Less Operating Expenses	
Wages expense	58
Office Expense	3
Net Profit	725

**STATEMENT OF FINANCIAL POSITION
MAFUTA RETAILERS
FOR THE MONTH ENDED 31, JANUARY**

	£	£
	DEBIT	CREDIT
Cash	458	
Inventory	683	
Furniture	230	
Receivables		
Smith	18	
Harvey	138	
Moon	26	
Payables		
Rich		135

LEDGER ACCOUNTS

Cash	
343	
18	12
64	21
110	14
25	75
84	27
30	32
	17
	3
	15
Closing bal	458
674	674

Inventory	
458	374
150	
75	
Closing Bal	309
683	683

Wages exp	
12	
14	
17	
15	
58	58

Furniture	
198	
32	
Closing	230
230	230

Office exp	
3	
3	3

Accounts Receivable

A/R (Smith)	
18	
Closing Bal	18
18	18

A/R (Harvey)	
39	25
124	
Closing Bal	138
163	163

A/R (Moon)	
26	
Closing Bal	26
26	26

Accounts Payables

A/P (Rich)	
27	12
	150
Closing bal	135
162	162

A/P (Max)	
21	21
closing	0
21	21

Sales	
	124
	64
	110
	84
	30
412	412

Task 4

Ricardo, a sole trader, had the following transactions for the month of June:

2 June Sold goods to Claire for £8,500 on credit; offered a 5% settlement discount.

13 June Bought goods from Georgina for £12,000 on credit; Georgina offered a 7% quick settlement discount.

14 June Sold goods to Hywel for £9,000 after a 5% trade

discount. 20 June Sold goods to Jane for £6,000 cash.

21 June Bought goods on credit for £4,500 from Andrew who offered a 2% quick settlement discount.

22 June Claire returned goods sold of £1,000.

24 June (i) Mandy bought goods worth £5,000 and was offered a 3% quick settlement discount.

(ii) Claire took advantage of Ricardo's discount and paid the net amount due after taking the discount offered.

25 June (i) Hywel settled the amount due in full.

(ii) Ricardo paid Georgina the amount due after deducting the discount offered.

27 June Ricardo paid Andrew in full, after deducting the discount offered.

Required:

Prepare the relevant ledger accounts to record the above transactions, extract a trial balance at 27 June and close the relevant ledger accounts.

Your answer should clearly show transactions with individual customers and suppliers.

GENERAL JOURNAL

MAFUTA RETAILERS

FOR THE MONTH OF JANUARY

		£	£
Date	Description	Debit	Credit
02-Jun	Account Receivable (Claire)	8,500	
	Sales		8,500
13-Jun	Good/ Inventory	12,000	
	Account Payables (Georgina)		12,000
14-Jun	Account Receivable (Hywel)	8,550	
	Sales Discount	450	
	Sales		9,000
20-Jun	Cash	6,000	
	Sales		6,000
21-Jun	Good/ Inventory	4,500	
	Accounts Payables (Andrew)		4,500
22-Jun	Sales Return	1,000	
	Account Receivable (Claire)		1,000
24-Jun	Account Receivable (Mandy)	5,000	

	Sales		5,000
24-Jun	Cash	7,125	
	Sales Discount	375	
	Account Receivable (Claire)		7,500
25-Jun	Cash	8,550	
	Account Receivable (Hywel)		8,550
25-Jun	Account Payables (Georgina)	12,000	
	Purchase Discount		840
	Cash		11,160
27-Jun	Account Payables (Andrew)	4,500	
	Purchase Discount		90
	Cash		4,410

TRAIL BALANCE		
MAFUTA RETAILERS		
	£	£
	Debit	Credit
Cash	6,105	
Inventory	16,500	
Accounts Receivables		
Mandy	5,000	
Account Payable		0
Sales Return	1,000	
Sales Discount	775	
Sales		28,500
Purchase Discount		930

LEDGER ACCOUNTS

Cash	
6000	11160
7125	4410
8550	
Closing bal	6105
21675	21675

Inventory	
12000	
4500	
Closing Bal	16500
16500	16500

Sales Discount	
450	
325	
Closing	775
775	775

Purchase Discount	
	840
	90
930	930

Sales Return	
1000	

Accounts Receivable

A/R (Claire)	
8500	1000
	7500
Closing Bal	0
8500	8500

A/R (Mandy)	
5000	
Closing Bal	5000
5000	5000

A/R (Hywel)	
8550	8550
Closing Bal	0
8550	8550

Accounts Payables

A/P (Andrew)	
4500	4500
Closing bal	0
4500	4500

A/P (Geogina)	
12000	12000
closing	0
21	21

Sales	
	8500
	9000
	6000
	5000
28500	28500

Task 5.

Demonstrating your research, differentiate between revenue expenditure and capital expenditure with reference to International Accounting Standards

1. Research Literature Review

- **Capital Expenditure**

Capital expenditure includes the costs that are incurred on the acquisition of a fixed asset and any cost or expenditure subsequent to the purchase of fixed asset. The expenditures that are incurred to increase the earning capacity of an existing fixed asset is also been treated as capital expenditures. (Simplified, 2017)

IAS 16 deals with the expenditures incurred on purchase or material renovation of fixed assets which includes (replacement cost of mechanical parts, reconstruction of building, up gradation of existing asset). The IAS describe in detail the cost of fixed asset allowed to be initially recognized as capital expenditure and procedure to measure the cost incurred subsequently after acquisition of asset or cost incurred on existing fixed asset. (IFRS, 2017)

- **Revenue Expenditure**

Revenue expenditures are cost that are incurred and recorded on the income statement as expenses because the expense made do not results in creation of a long-term benefits for the organization however, it only produces benefits in one single period and therefore this type of expenditures should only be recorded in one single period. In contrast, capital expenditures produce benefits in multiple periods. The expenditures incurred on fixed assets that are aimed at 'maintaining' rather than enhancing the earning capacity of the assets are categorized as Revenue expenditures. (bizfluent, 2019)

2. Knowledge and Understanding

The expenditures incurred of fixed asset are of two types one is capital expenditure and the second is revenue expenditures. Capital expenditures are the cost incurred on fixed assets that will

results in increase in the life of asset. Productivity, enhance capacity, enhance operational performance.

Revenue expenditures are those costs incurred on the maintenance of fixed assets and are not allowed to be categorized by accounting rules. These cost does not enhance asset's life or ability to performs but these are the actually the running cost of the asset and therefore expensed out via income statement of the company.

3. Analysis

The Tangible fixed assets are initially and subsequently measured according to IAS 16 and the cost incurred on fixed asset with be capitalized to fixed asset net book value once the expenditure fulfilled the requirement of IAS 16 "Property, Plant and Equipment" for capitalization. (IFRS16, 2017)

The expense incurred on nontangible asset will be dealt in accordance with IAS 38 "Intangible Assets" and allowed to be capitalized if it fulfils the requirements of capitalization of cost to the assets. (IFRS38, 2017)

The assets allowed to be capitalized are showed as funds outflow for investing activities as per IAS 7 "Statement of Cash flows" whereas, the revenue expenditures are shown as fund outflow for operating activities". Revenue expenditures are those costs incurred on fixed assets and these costs do not result in the improvement of efficiency, capacity, life of asset. These costs are categorized as maintenance costs and recorded via income stamens as maintenance expense. (IAS7, 2018)

4. Practical application and deployment:

The expenditures which are made in practice world on the fixed asset are huge and wrong categorization of which leads to a non-compliance issues, Deferred tax issues and in some cases to a qualified audit opinion.

Example of Capital Expenditure:

Scenario 1: Company ABC Ltd. started the business of manufacturing electronic items to sell them in the market. For that purpose, company buys a machine so that the electronic items can be produced. The owner of the company is arguing that it should be treated as revenue Expenditure. How it should be treated?

According to IAS 16 "Property, Plant and Equipment" the purchase cost of the machinery and the installation cost incurred must be capitalized and depreciated over the useful life of the asset using most relevant and suitable depreciation methods (i.e. Straight-line method, diminishing balance method). The cost of purchasing a machine or subsequent expense on asset that will increase the efficiency, production capacity or life of the asset must be capitalized to the cost of the asset.

Scenario 2: Company ABC Ltd. spend a quarterly maintenance cost of machine. The owner of the company is arguing that it should also be treated as Capital Expenditure. How it should be treated?

The maintenance cost is a running cost of the machine and will not results in enhancing the production capacity, performance or life of asset therefore this type of cost must be accounted for as revenue expenditure. These costs are expense out from the profit in the year/period of occurrence.

Scenario 3: A sub-machine is purchased for \$2000 and installed with the production cost with an installation cost of \$100. This will increase the production capability of existing machine by 20%. Owner of the company is unsure of the accounting treatment of cost incurred on purchasing and installation of machine.

According to IAS 16, the cost of sub machine and its installation cost will be capitalized to the cost of asset as it will result in the increase in the existing production capacity of electronic items by 20%.

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