

Accounting fundamentals

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Introduction

Today's accounting would have shown otherwise without the strong involvement of Luca Pacioli, who in 1494 described for the first time the double-entry system used by merchants in Venice, described the system of debits and credits that are the basis of today's accounting. In 1896, he established the first standardized accountant test for the US Public Accountants Association. So, if we take a look in the past, we will see how much the accounting has evolved, but still, its old bases are still preserved.

Task 1

Cash account

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
April 5	Capital		£300.00	April 7	Purchase		£200.00
April 8	Accounts payable		£250.00	April 15	Motor van		£150.00
April 20	Sales		£350.00	April 28	Rent		£50.00
				April 29	Account payable		£200.00
				April 30	Drawing		£60.00

					Balanced c/d		£240.00
	Total		£900.00				£900.00

Capital

Date	Description	Ref	Amount	Date	Description	Ref	Amount
				April 5	Cash		£300.00
	Balanced c/d		£300.00				

Purchase

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
April 7	Cash		£200.00		Balanced c/d		£200.00

Account payable

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
April 29	Cash		£ 200.00	April 8	Cash		£250.00
April 28	Rent		£ 50.00				
	Total		£ 250.00				£250.00

Motor van

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
April 15	Cash		£150.00				
					Balanced c/d		£150.00

Sale

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				April 20	Cash		£350.00
	Balanced c/d		£350.00				

Rent

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
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April 28	Cash		£50.00				
					Balanced c/d		£50.00

Drawings

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
April 30	Cash		£60.00				
					Balanced c/d		£60.00

Trial balance at 30 April

Account title	Debit	Credit
Cash	£240.00	
Capital		£300.00
Purchase	£200.00	
Accounts payable		£50.00
Motor van	£150.00	
Sales		£350.00
Rent	£50.00	
Drawings	£60.00	
Total	£700.00	£700.00

Profit and loss statement for the month ended 30 April

Sales		£350.00
Cost of goods sold		
Purchase	£200.00	
Closing inventory	(£100.00)	
		(£100.00)
Gross profit		£250.00
Rent expense		(£50.00)
Net profit		£200.00

Statement of financial position at the end of the month 30 April

Assets	
Non-current asset :Motor van	£150.00
Current asset :Cash	£240.00
Total asset	£390.00
Equity/Liabilities	
Capital	£300.00
Less: Drawings	(£60.00)
	£240.00
Current liabilities: Accounts payable	£50.00
Total	£390

Task 2

Cash account

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 1	Capital		£500.00	Jan 2	Cash		£600.00
Jan 4	Accounts Payables		£1000.00	Jan 3	Cash		£1300.00
Jan 13	Sales		£300.00	Jan 10	Expenses		£200.00
Jan 15	Sales		£500.00	Jan 24	Expenses		£150.00
				Jan 27	Accounta payables		£350.00
				Jan 30	Drawings		£175.00
					Balance c/d		£4025.00
	Total		£6800.00				£6800.00

Motor van

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 2	Cash		£600.00		Balanced c/d		£600.00

Purchase

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 3	Cash		£130.00				

Accounts Payable

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 27	Cash		£350.00	Jan 4	Cash		£1000.00
	Balanced c/d		£650.00				
	Total		£1000.00				£1000.00

Expenses

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 10	Cash		£200.00				
Jan 24	Cash		£150.00				
					Balanced c/d		£350.00
	Total		£350.00				£350.00

Sales

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				Jan 3	Cash		£300.00
				Jan 20	Cash		£500.00
	Balanced c/d		£800.00				
	Total		£800.00				£800.00

Capital

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				Jan 1	Cash		£500.00
	Balanced c/d		£500.00				

Drawings

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 30	Cash		£175.00		Balanced c/d		£175.00

Trial balance at 31 January

Accounts title	Debit	Credit
Cash	£4025.00	
Motor van	£600.00	
Purchase	£1300.00	
Accounts payable		£650.00
Expenses	£350.00	
Sales		£800.00
Capital		£500.00
Drawings	£175.00	
Total	£6450.00	£6450.00

Profit and loss statement for the month ended at 31 January

Sale		£800.00
Cost goods sold		
Purchase	£1300.00	
(closing inventory)	(£800.00)	
		(£500.000)
Gross profit		£300.00
Less expenses		(£350.00)

Net loss		(£50.00)
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Statement of financial position at the month ended on 31 January

Assets	
Current asset: Cash	£4025.00
Non-current asset: Van	£600.00
Total assets	£4625.00
Equity / Liabilities	
Capital	£5000.00
Less drawings	(£175.00)
Accounts payables	£650.00
Total equity / liability	£4625.00

Task 3

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 7	Accounts receivable (Smith)		£180.00	Jan 5	Wages		£12.00
Jan 11	Sales		£64.00	Jan 9	Max		£21.00
Jan 21	Sales		£110.00	Jan 14	Wages		£14.00
Jan 23	Harvey		£25.00	Jan 14	Purchase		£75.00
Jan 28	Sales		£84.00	Jan 15	Rich		£12.00
Jan 31	Sales		£30.00	Jan 20	Equipment		£32.00
				Jan 21	Wages		£17.00
				Jan 23	Office expenses		£3.00
				Jan 28	Wages		£15.00
					Balance c/d		£130.00
	Total		£331.00				£331.00

Accounts receivable (Harvey)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 2	Sales		£124.00	Jan 23	Cash		£25.00
					Balance c/d		£99.00
	Total		£124.00				£124.00

Sale account

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				Jan 2	Harvey		£124.00
				Jan 11	Cash		£64.00
				Jan 21	Cash		£110.00
				Jan 28	Cash		£84.00
				Jan 31	Cash		£30.00
	Balance c/d		£412.00				
	Total		£412.00				£412.00

Wages account

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 5	Cash		£12.00				
Jan 14	Cash		£14.00				
Jan 21	Cash		£17.00				
Jan 28	Cash		£15.00				
				Balance c/d			£58.00
	Total		£58.00	Total			£58.00

Purchase

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 5	Accounts payable (Rich)		£150.00				
Jan 14	Cash		£75.00				
				Balance c/d			£225.00
	Total		£225.00				£225.00

Accounts payable (Rich)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 15	Cash		£12.00	Jan 5	Purchase		£150.00
	Balance c/d		£138.00				
	Total		£150.00				£150.00

Accounts receivable (Smith)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				Jan 7	Cash		£18.00
	Balance c/d		£18.00				
	Total		£18.00				£18.00

Account receivable (Max)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 9	Cash		£21.00				
					Balance c/d		£21.00
	Total		£21.00				£21.00

Equipment

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 20	Cash		£32.00				
					Balance c/d		£32.00
	Total		£32.00				£32.00

Office

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
Jan 23	Cash		£3.00				
					Balance c/d		£3.00
	Total		£3.00				£3.00

Mafuta retailer

Trial balance at 31 January

Accounts title	Debit	Credit
Cash	£130.00	
Accounts receivable (Harvey)	£99.00	
Sales		£412.00
Wages	£58.00	
Purchase	£225.00	
Account payable (Rich)		£138.00
Account payable (Smith)	£18.00	

Account payable (Max)		£21.00
Equipment	£32.00	
Office expenses	£3.00	
Total	£565.00	£565.00

Profit and loss statement for the month ended 31 January

Sale		£412.00
Cost of goods sold		
Purchase	£225.00	
Opening inventory	£458.00	
Less :Closing inventory	(374.00)	
		(£309.00)
Gross profit		£103.00
Wage expense	£58.00	
Office expense	£3.00	
		(£61.00)
Net profit		£42.00

Statement of financial position at the year ended at 31 January

Asset		
Noncurrent asset: Equipment	£32.00	
Furniture and fittings	£108.00	
Current asset: Cash	£130.00	
Accounts receivables	£143.00	
		£503.00
Equity /Liabilities		
Accounts payable		£159.00

Task 4

Cash account

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 20	Sale		£6000.00	June 25	Cash		£11160.00
June 24	Claire		£71250.00	june 27	cash		£4410.00
June 25	Hywel		£9000.00		Balance c/d		£6555.00
	Total		£22125.00		Total		£22125.00

Sale accounts

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				June 2	Claire		£8500.00
				June 14	Hywel		£9000.00
				June 20	Cash		£6000.00
				June 24	Mandy		£5000.00
	Balance c/d		£28500.00				
	Total		£28500.00				£28500.00

Accounts payable (Andrew)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 27	Cash		£4500.00	June 21	Purchase		£4500.00

Accounts receivables (Claire)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 2	Sales		£8500.00	June 22	Sale return		£1000.00
				June 24	Cash		£7500.00
	Total		£8500.00		Total		£8500.00

Account payable (Georgiana)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 25	Cash		£12000.00	June 13	Purchase		£12000.00
	Total		£12000.00				£1200.00

Accounts receivables (Hywel)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 14	Sale		£9000.00	June 25	Cash		£9000.00
	Total		£9000.00				£9000.00

Sale discount

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 24	Claire		£375.00				
					Balance c/d		£375.00
	Total		£375.00		Total		£375.00

Purchase discount

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
				June 25	Georgina		£840.00
				June 27	Andrew		£90.00
	Balance c/d		£930.00				
	Total		£930.00				£930.00

Accounts receivable (Mandy)

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 24	Sales		£5000.00				

Purchase

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 13	Georgina		£12000.00				
June 21	Andrew		£4500.00				
					Balance c/d		£16500.00
	Total		£16500.00		Total		£16500.00

Sale return

Date	Description	Ref	Amount (£)	Date	Description	Ref	Amount (£)
June 22	Claire		£1000.00				

Ricardo business

The trial balance on 31 June

Accounts title	Debit	Credit
Cash	£6555.00	
Sales		£28500.00
Sales discount	£375.00	
Purchase	£16500.00	

Purchase discount		£930
Total	£29430.00	£29430.00

Task 5

In an organization managers have power and authority, so they use accounting information to take action to correct the shortcomings, maintain current levels of achievement or exploit favorable outcomes. Some decisions a manager can take from accounting information are: financing expansion, staff needed to meet budgeted sales targets, staffing costs and income generated, expanding or contracting operations. Every financial situation is "The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions" (IASB).

The Capital is the amount which the owner has invested in the business; this is owed back to the owner and is a special liability of the business. The assignment will give us details about the capital of the organization. So we will see the detailed analysis of the capital sources in the organization. These techniques will be discovered during the procedure. Capital adequacy techniques are used to acquire capital in a timely manner. Capital is the strong point in putting into action cash flow and cash flow while sustaining capital adequacy.

Analysis

Capital can be considered as the key to an organization remaining in business because many of these seem to be very profitable but are forced to cease to operate due to their inability to meet their short-term obligations when they become due, so management is the potential of the organization. "It is the blood of any business. Without working capital the survival of the business is not possible" Panigrahi (2017). The formula for calculating working capital of a business is:

Working capital = Current Assets – Current liabilities

This formula consists of current assets and current liabilities of the enterprise. Current assets are assets for a short time in the business, and the company's current liabilities can be the stock, the debtor or the accounts receivable, the cash in hand and the cash in the bank. For any company, the funds are the basis of the business, these financial sources are divided into two categories: internal (retained, sell, inventory) and external.

Fix assets

Fixed assets are also called Tangible Assets. These tangible assets have an entity to obtain goods and services, as well as rentals for third parties or for administrative reasons. It is believed that assets will be used for more than a year. They are not liquid assets such as current assets. Buildings, land, furniture, and appliances, cars and vehicles can be considered as fixed assets. This substance is often described by the term "immobilization" because it shows its physical form, and it is not owned for the purpose of revaluation but for rental or production.

Liability

Loans, wages, interest, customer deposits, deferred income, all this is considered to be a liability because it is a debt from a past business event.

Active = Liabilities + Equity.

Conclusion

Accounting is a clear proof of a business or organization that depends on their evolution to prove quality. It is the blood that puts the economy in motion, so much attention must be paid from all points of view, so that reporting and analysis of financial information are done by management and tax advice for optimum results.

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