

Accounting Fundamentals Component One

by Alexandru Inasescu

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Alexandru Inasescu 2210486

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Component one
Accounting fundamentals

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Task 1

Smart Grocery

Profit and loss account

¹
31st of December 2022

Sales	154,786	
Net sales		154,786
Less: COGS		
Opening inventory	£5,100	
Add: purchases	£88,600	
Less: closing inventory	£2,400	
COGS		£91,300
Gross profit		£63,486
Add: discount received		£320
Total revenue	63,806	
Less: expenses		
Rent	1,970	
Less: prepayment ¹ 230		
Salaries 28,400	28,740	
Add: Salaries accrued 340		
Discount allowed	740	
Depreciation:	4,675	
Furniture 12,900 * 15% = 1,935		

Vehicles $13,700 \times 20\% = 2,740$		
Vehicle Maintenance 615	75	
Less: costs owing 540		
Bad dept	316	
New provision for bad dept	716	
Total expenses		36,212
Net profit before tax		27,594
Tax @30%		£8,278.20
Profit after tax		19,315.80

1
Smart Grocery

Balance sheet

As 31st of December 2022

Details	debit	credit
Non-current assets:		
Furniture 12,900	5,160	
Less: Accumulated Depreciation $3,870 + 1,935 = 5,805$		
Net Furniture 5,160		
Vehicles 13,700	3,870	
Less: Accumulated Depreciation $4,350 + 2,740 = 7,090$		
Net Vehicles 3,870		
1 Total non-current assets		13,705

Current assets		
Bank	4,820	
Trade receivables 14,316	13,284	
Less: specific bad debts (316)		
Less: Provision for bad debts ($14,316 \times 5\%$) = (716)		
Closing inventory	2,400	
Total current asset		20,504
Total assets		34,209
Liabilities and capital		
Trade payables	6,350	
Total current liability		6,350
1 Capital	15,000	
Add: net profit	27,594	
Less: drawings	13,800	
Ending capital		28,794
Capital and liability		34,209

Task 2**Ledger "T" accounts as of 31 May 2023**

1. Capital Account:

	DEBIT	CREDIT
1 May		50,000

2. Van Account

	Debit	Credit
1 may	13,000	

3. Bank Account

	Debit	Credit
1 may	27,000	
2 may	500	
3 may	2,500	
7 may	700	
9 may		3,000
11 may	350	
15 may		2,600
18 may	450	
30 may	1,200	

4. Receivables Account:

	Debit	Credit
1 may	15,000	
9 may		3,000
15 may		2,600

5. Payables Account:

	Debit	Credit
1 may		5,000
20 may	1,200	

6. Advertising Expense Account:

	Debit	Credit
2 may	500	

7. Supplier Account:

	Debit	Credit
3 may		2,500

8. Personal Drawings Account:

	Debit	Credit
7 may	700	

9. Petrol Expense Account:

	Debit	Credit
11 may	350	

10. Insurance Expense Account:

	Debit	Credit
18 may	450	

11. Purchases Account:

	Debit	Credit
20 may	1,200	
30 may		1,200

12. Sales Account:

	Debit	Credit
21 may	2,400	

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Trial Balance as of 31 May 2023

Account	Debit	Credit
Capital	50,000	
Van	13,000	
Bank	32,150	
Receivables	4,400	
Payables		6,200

Advertising Expense	500	
Supplier		2,500
Personal Drawings	700	
Petrol Expense	350	
Insurance Expense	450	
Purchases	1,200	

Sales		2,400
Total	102,750	11,100

Task 3

Depreciation is an accounting term that describes ³ the methodical distribution of a non-current ² asset's cost over the course of its useful life. Buildings, machinery, vehicles, and other non-current assets are necessary for a company's operations but tend to depreciate over time due to wear and tear, obsolescence, or technological advancements. Depreciation makes sure that the costs related to these assets are dispersed equally over the course of their useful lives, matching the cost to the income they produce.

Depreciation is used for a variety of things. First, it acknowledges the decline in value of non-current assets because of their use in the manufacturing process. Depreciation helps in accurately reporting the financial performance and profitability of a business by appointing a part of the asset's cost as an expense. In addition, it aids in accurately valuing assets on the balance sheet to reflect their true economic value. Depreciation lowers the asset's carrying value, which is the asset's original cost less accumulated depreciation, giving a more exact estimation of the asset's value.

Depreciation is accounted for using a variety of techniques, such as straight-line, reducing balance, and units of production depreciation. The method selected will depend on several variables, ² including the asset's expected usage pattern and estimated remaining life. While reducing ² balance depreciation front-loads the depreciation expense in the early years, straight-line depreciation evenly distributes the asset's cost over its useful life. Depreciation based on units of production connects the cost to the asset's actual usage or output.

For each non-current asset, businesses set up a separate account called "Accumulated Depreciation" to reflect depreciation. Each period, the amount of recognized depreciation expense is credited to the accumulated depreciation account.

A crucial part of financial reporting and decision-making is depreciation. It offers a more correct picture of a company's cash flows, profitability, and financial position. Additionally, it aids companies in making future asset replacement or upgrade plans. Businesses can ensure transparency, accountability, and efficient management of their non-current assets by adhering to the depreciation principles, which will help to the overall success and sustainability of the company.

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