



ACCOUNTING FUNDAMENTALS

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Contents

INTRODUCTION:	3
TASK 1	4
TASK 2	6
TASK 3	10
TASK 4	15
TASK 5	18
CONCLUSION:	20
REFERENCES:	21

INTRODUCTION:

Accounting might be characterised as the science and the art of efficiently recording, introducing, and explicating the financial circumstances of an individual or a company.

On one hand, accounting as the science means the characterised information regarding the subject — the range of systematic standards which have been created because of study and experience.

On the other hand, accounting as the art, is the genuine characterising and recording, introducing, and explicating of the financial facts of an individual or organisation (Topfreebooks.org, 2018).

Accounting is the method of classifying, estimating, recording and imparting a company's financial activities to users. Users need data for decision making. The part of accounting known as managerial accounting operates the decision-making needs of internal users. Financial accounting is the part of accounting that aims at external detailing and addressing the requirements of external clients (Open Textbook Library, 2017).

TASK 1

Journal entries:

Date	Explanation	Debit	Credit
5 April	Cash at Bank	£300.00	
	Capital		£300.00
Capital introduced in Business			
7 April	Purchased goods	£200.00	
	Cash at Bank		£200.00
Goods is purchased			
8 April	Loan received	£250.00	
	Loan from Tatiana		£250.00
Loan is received from Tatiana (current liability)			
15 April	Motor van	£150.00	
	Cash at Bank		£150.00
Purchased motor van (fixed asset)			
20 April	Cash A/c	£350.00	
	Sold goods		£350.00
Goods sold			
28 April	Rent A/c	£50.00	
	Cash at Bank		£50.00
Payment of rent			
29 April	Loan from Tatiana	£200.00	
	Cash A/c		£200.00
Repaid part of the loan received from Tatiana			
30 April	Drawings	£60.00	
	Cash		£60.00
Withdrawal by owner			
30 April		£1,560.00	£1,560.00

General Ledger:

CAPITAL ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
30 April	Cash	£60.00	5 April	Cash	£300.00
	Balance c/d	£240.00		Balance b/d	£240.00

PURCHASED GOODS ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
7 April	Trade Payable	£200.00			

MOTOR VAN ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
15 April	Cash	£150.00			

SALES ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
			8 April	Trade receivable	£250.00
			20 April	Cash	£350.00

TRADE RECEIVABLE ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
8 April	Sales	£250.00			

RENT ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
28 April	Cash	£50.00			

DRAWINGS ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
30 April	Cash	£60.00			

CASH AT BANK ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
5 April	Capital	£300.00	7 April	Purchase goods	£200.00
8 April	Loan Tatiana	£250.00	15 April	Motor van	£150.00
20 April	Sold goods	£350.00	28 April	Rent	£50.00
			29 April	Repaid loan Tatiana	£200.00
			30 April	Drawings	£60.00
				Balance c/d	£240.00

TRIAL BALANCE at 30th of April

Explanation	Debit	Credit
Capital		£300.00
Cash	£240.00	
Loan Tatiana		£50.00
Purchases	£200.00	
Sales		£350.00
Motor Van	£150.00	
Rent	£50.00	
Drawings	£60.00	
	£700.00	£700.00
Closing stock at 30 th April:		£100.00

Income statement of PROFIT or LOSS for the month ended 30th of April

Explanation	Debit	Credit
Sales		£350.00
Cost of goods sold		
Purchases	£200.00	
Closing stocks	£100.00	
Gross profit		£250.00
Less expenses		
Rent	£50.00	
Total Expenses	£50.00	
Net Profit:		£200.00

Statement of financial position at 30th of April

Explanation	Debit	Credit
Fixed Assets		
Motor van	£150.00	
Total fixed assets		£150.00
Current assets		
Cash	£240.00	
Closing stocks	£100.00	
Total current assets		£340.00
Total Assets:		£490.00
Current liabilities		
Loan Tatiana		£50.00
Total Liabilities:		£50.00
Capital	£300.00	
Net Profit	£200.00	
Gross capital: £500.00		
Drawings	£60.00	
Net Capital:		£440.00
Total liabilities + Capital		£490.00

TASK 2

Journal entries:

Date	Explanation	Debit	Credit
1 January	Cash	£5,000.00	
	Capital		£5,000.00
Capital introduced in Business			
2 January	Motor van	£600.00	

	Cash		£600.00
Purchased motor van (fixed asset)			
3 January	Purchased goods	£1,300.00	
	Cash		£1,300.00
Goods is purchased			
4 January	Loan received	£1,000.00	
	Loan payable to Sergei		£1,000.00
Loan is received from Sergei (current liability)			
10 January	Expenses for motor van	£200.00	
	Cash		£200.00
Paid expenses for motor van			
13 January	Sold goods		£300.00
	Cash	£300.00	
Goods sold			
20 January	Sold goods		£500.00
	Cash	£500.00	
Goods sold			
24 January	Storage expenses	£150.00	
	Cash		£150.00
Paid expenses for storage			
27 January	Loan payable to Sergei	£350.00	
	Cash A/c		£350.00
Repaid part of the loan received from Sergei			
30 January	Drawings	£175.00	
	Cash		£175.00
Withdrawal by owner			
	30 January	£9,575.00	£9,575.00

General Ledger:

CAPITAL ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
30 January	Cash	£175.00	1 January	Capital	£5,000.00
				Balance b/d	£4,825.00

PURCHASED GOODS

Date	Explanation	Debit	Date	Explanation	Credit
3 January	Cash	£1,300.00			

CASH AT BANK ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Capital	£5,000.00	2 January	Motor van	£600.00
4 January	Loan Sergei	£1,000.00	3 January	Purchased goods	£1,300.00
13 January	Sales	300	10 January	Motor van expenses	£200.00
20 January	Sales	500	24 January	Storage expenses	£150.00
			27 January	Repaid loan Sergei	£350.00
			30 January	Drawings	£175.00
		£6,800.00	30 January	Balance c/d	£4,025.00
1 February	Balance b/d	£4,025.00			£6,800.00

MOTOR VAN ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
2 January	Cash	£600.00			

SALES ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
			13 January	Cash	£300.00
			20 January	Cash	£500.00
	Balance c/d	800			£800.00

**MOTOR VAN EXPENSES
ACCOUNT**

Date	Explanation	Debit	Date	Explanation	Credit
10 January	Cash	£200.00			

**STORAGE EXPENSES
ACCOUNT**

Date	Explanation	Debit	Date	Explanation	Credit
24 January	Cash	£150.00			

LOAN FROM SERGEI

Date	Explanation	Debit	Date	Explanation	Credit
27 January	Cash	£350.00	4 January	Cash	£1,000.00
	Balance c/d	£650.00		Balance b/d	£650.00
		£1,000.00			

Trial Balance at 31st of January

Explanation	Debit	Credit
Capital		£5,000.00
Cash	£4,025.00	
Loan Sergei		£650.00
Purchased goods	£1,300.00	
Sales goods		£800.00

Motor van	£600.00	
Expenses for motor van	£200.00	
Expenses for storage	£150.00	
Drawings	£175.00	
	£6,450.00	£6,450.00
Closing inventory at 31st of January:		£800.00

Income statement of PROFIT or LOSS for the month ended 31st of January

Explanation	Debit	Credit
Sales		£800.00
Cost of goods sold		
Purchases	£1,300.00	
Closing stocks	£800.00	
Net cost of good stocks	£500.00	
Gross profit		£300.00
Less expenses		
Loan Sergei	£350.00	
Expenses for motor van	£200.00	
Expenses for storage	£150.00	
Total Expenses		£700.00
Net Profit:		-£400.00

Statement of financial position at 31st of January

Explanation	Debit	Credit
Fixed Assets		
Motor van	£600.00	
Total fixed assets		£600.00
Current assets		
Cash	£4,025.00	
Closing stocks	£800.00	
Total current assets	4825	
Total Assets:		£5,425.00
Current liabilities		
Loan Sergei		£1,000.00
Total Liabilities:		£1,000.00
Capital	£5,000.00	

Net Profit	-£400.00	
Gross Capital = Capital + Net Profit:	£4,600.00	
Drawings	£175.00	
Net Capital:		£4,425.00
Total liabilities + Net Capital		£5,425.00

TASK 3

Journal entries:

Date	Explanation	Debit	Credit
1 January	Cash in hand	£343.00	
	Capital		343
	Inventory	£458.00	
	Capital		458
	Furniture and fittings	£198.00	
	Capital		£198.00
Capital introduced in Business: £999.00			
2 January	Account receivable Harvey	£124.00	
	Sold goods		£124.00
Sold goods on credit to Harvey			
5 January	Wages	£12.00	
	Cash in hand		£12.00
Paid wages			
5 January	Account payable Rich		£150.00
	Purchased goods	£150.00	
Bought goods on credit from Rich			
7 January	Smith account		£18.00
	Cash in hand	£18.00	
Smith settled his account			
9 January	Max account	£21.00	
	Cash in hand		£21.00
Paid the amount owing to Max			
11 January	Sales		£64.00
	Cash in hand	£64.00	
Cash sales			
14 January	Wages	£14.00	
	Cash in hand		£14.00
Paid wages			
14 January	Purchased goods	£75.00	
	Cash in hand		£75.00
Bought goods for cash			

15 January	Rich account	£162.00	
	Cash in hand		£162.00
Paid the amount owing to Rich			
20 January	Office desk	£32.00	
	Cash		£32.00
Bought office desk for cash			
21 January	Wages	£17.00	
	Cash		£17.00
Paid wages			
21 January	Sales		£110.00
	Cash	£110.00	
Cash sales			
23 January	Office expenses	£3.00	
	Cash		£3.00
Paid office expenses			
23 January	Harvey account		£25.00
	Cash	£25.00	
Harvey paid on account			
28 January	Sales		£84.00
	Cash	£84.00	
Cash sales			
28 January	Wages	£15.00	
	Cash		£15.00
Paid wages			
31 January	Sales		£30.00
	Cash	£30.00	
Cash sales			
31 January		£1,955.00	£1,955.00

General Ledger:

CAPITAL ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
			1 January	Cash	£343.00
				Inventory	£458.00
				Furniture and fittings	£198.00
31 January	Balance c/d	£999.00			£999.00

INVENTORY ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Capital	£458.00	31 January	Balance c/d	£458.00
		£458.00			£458.00
	Balance b/d	£458.00			

**FURNITURE AND FITTINGS
ACCOUNT**

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Capital	£186.00	31 January	Balance c/d	£198.00
		£198.00			£198.00
	Balance b/d	£198.00			

SMITH ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Sales	£18.00	7 January	Cash	18

MOON ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Sales	£26.00	31 January	Balance c/d	£26.00
		£26.00			£26.00
	Balance b/d	£26.00			

Harvey ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Sales	£39.00	23 January	Cash	£25.00
2 January	Sales on credit	£124.00	31 January	Balance c/d	£138.00
		£163.00			£163.00
	Balance b/d	£138.00			

MAX ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
9 January	Cash	£21.00	1 January	Purchased goods	21

RICH ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
15 January	Cash	£162.00	1 January	Purchased goods	£12.00
			5 January	Purchased goods	£150.00
					£162.00

SALES ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
			1 January	Smith account	£18.00
				Harvey account	£39.00
				Moon account	£26.00
			2 January	Harvey account	£124.00
			11 January	Cash	£64.00
			21 January	Cash	£110.00
			28 January	Cash	£84.00
			31 January	Cash	£30.00
					£495.00

31 January	Balance c/d	£495.00	Balance b/d	£495.00
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WAGES ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
5 January	Cash	£12.00			
14 January	Cash	£14.00			
21 January	Cash	£17.00			
28 January	Cash	£15.00			
		£58.00			
	Balance b/d	£58.00	31 January	Balance c/d	£58.00

PURCHASED GOODS ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
1 January	Max account	£12.00			
	Rich account	£21.00			
5 January	Rich account	£150.00			
15 January	Cash	£75.00			
		£258.00			
	Balance b/d	£258.00	31 January	Balance c/d	£258.00

OFFICE DESK ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
20 January	Cash	£32.00			

OFFICE EXPENSES ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
23 January	Cash	£3.00			
		£3.00			
	Balance b/d	£3.00	31 January	Balance c/d	£3.00

Trial Balance at 31st of January

Explanation	Debit	Credit
Cash in hand	£323.00	
Capital		£999.00
Inventory	£458.00	
Furniture and fittings	£198.00	
Harvey account - receivables	£138.00	
Moon account - receivables	£26.00	
Sales		£495.00
Wages	£58.00	
Purchased goods	£258.00	
Office expenses	£3.00	

Office desk	£32.00	
	£1,494.00	£1,494.00
Inventory at cost:		£374.00

Income statement of PROFIT or LOSS for the month ended 31st of January

Explanation	Debit	Credit
Sales		£412.00
Cost of goods sold		
Purchases	£225.00	
Inventory	£458.00	
Closing stocks	£374.00	
Net of goods sold	£309.00	
Gross profit		£103.00
Less expenses		
Wages	£58.00	
Office expenses	£3.00	
Total Expenses	£61.00	
Net Profit:		£412.00

Statement of financial position at 31st of January

Explanation	Debit	Credit
<i>Fixed Assets</i>		
Furniture and fittings	£198.00	
Office desk	£32.00	
Total fixed assets		£230.00
<i>Current assets</i>		
Cash	£323.00	
Closing stocks	£374.00	
Harvey account - receive	£138.00	
Moon account - receive	£26.00	
Total current assets		£861.00
Total Assets		£1,091.00
Total liabilities:		
Capital	£1,049.00	
Net profit	£42.00	
Gross Capital	£1,091.00	
Drawings		
Net Capital		£1,091.00

TASK 4

Journal entries:

Date	Explanation	Debit	Credit
2 June	Sales on credit		£8,500.00
	Claire account	£8,500.00	
Goods sold to Claire on credit			
13 June	Purchased goods	£12,000.00	
	Georgina account		£12,000.00
Purchased goods from Georgina on credit			
14 June	Sales		£8,550.00
	Hywel account	£8,550.00	
Goods sold to Hywel			
20 June	Sales		£6,000.00
	Cash account	£6,000.00	
Goods sold to Jane for cash			
21 June	Purchased goods	£4,500.00	
	Andrew account		£4,500.00
Purchased goods from Andrew on credit			
22 June	Returned goods sold	£1,000.00	
	Claire account		£1,000.00
Returned goods sold from Claire			
24 June	Sales		£5,000.00
	Mandy account	£5,000.00	
Purchased goods from Mandy			
24 June	Ricardo account	£7,500.00	
	Discount of sales		£375.00
	Claire account		£7,125.00
Claire paid discounted amount to Ricardo			
25 June	Cash account	£8,500.00	
	Hywel account		£8,500.00
Hywel settled the amount in full			
25 June	Cash account		£11,160.00
	Discount of purchased		£840.00
	Georgina account	£12,000.00	
Ricardo paid discounted amount to Georgina			
27 June	Cash account		£4,410.00
	Discount of purchased		£90.00

	Andrew account	£4,500.00	
Ricardo paid discounted amount to Andrew			
	27 June	£78,050.00	£78,050.00

General Ledger:

CLAIRE ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
2 June	Sales	£8,500.00	22 June	Returned goods	£1,000.00
			24 June	Discount	£375.00
				Cash	£7,125.00
		£8,500.00			£8,500.00

GEORGINA ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
25 June	Discount	£840.00	13 June	Purchased goods	£12,000.00
	Cash	£11,160.00			
		£12,000.00			£12,000.00

HYWEL ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
14 June	Sales	£8,550.00	25 June	Cash	£8,550.00

JANE ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
20 June	Sales	£6,000.00			

ANDREW ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
27 June	Discount	£90.00	21 June	Purchased goods	£4,500.00
	Cash	£4,410.00			
		£4,500.00			4500

MANDY ACCOUNT

Date	Description	Debit	Date	Explanation	Credit
24 June	Sales	£5,000.00			

CASH ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
20 June	Sales	£6,000.00	25 June	Georgina account	£11,160.00
24 June	Claire account	£7,125.00	27 June	Andrew account	£4,410.00
25 June	Hywel account	£8,550.00			£15,570.00
		£21,675.00		Balance c/d	£6,105.00

Balance b/d	£6,105.00	£21,675.00
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**PURCHASED GOODS
ACCOUNT**

Date	Explanation	Debit	Date	Explanation	Credit
13 June	Georgina account	£12,000.00			
21 June	Andrew account	£4,500.00			
		£16,500.00		Balance c/d	£16,500.00
	Balance b/d	£16,500.00			

**RETURNED GOODS
ACCOUNT**

Date	Explanation	Debit	Date	Explanation	Credit
22 June	Claire account	£1,000.00			

DISCOUNT ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
			25 June	Georgina account	£840.00
			27 June	Andrew account	£90.00
	Balance c/d	£930.00			£930.00
				Balance b/d	£930.00

**DISCOUNT SALES
ACCOUNT**

Date	Explanation	Debit	Date	Explanation	Credit
24 June	Claire account	£375.00			

SALES ACCOUNT

Date	Explanation	Debit	Date	Explanation	Credit
			2 June	Claire account	£8,500.00
			14 June	Hywel account	£8,550.00
			20 June	Jane account	£6,000.00
			24 June	Mandy account	£5,000.00
	Balance c/d	£28,050.00			£28,050.00
				Balance b/d	£28,050.00

TASK 5

The amount used or brought about on procuring a fixed asset is considered as **Capital expenditure**. A similar principle uses to the acquisition of a business as a going solicitude idea of accounting. (Financialaccountancy.org)

Capital expenditure is expenditure made to acquire non-current assets or an upgrade in their producing capability. Capital expenditure leads to the identification of fixed assets in the statement of the financial situation of the business. Capital expenditure isn't charged as an expenditure in the income statement. Rather, the capital expenditure use is step by step diminished in the statement of financial situation and cancelled over a period of time. (BPP Learning Media, 2010, p. 305)

Capital expenditure incorporate purchase value of fixed assets in addition to the identical costs associated with the procurement of fixed assets, e.g., establishment costs on machine, import duty on imported vehicles, investment purchase brokerage, enrolment charges for move of property rights, transport and mortgage charges in conjunction with a purchase, and so forth. The capital expenditure enhances the producing capacity of the business. The expenditures which enhance the valuable life of fixed assets past the estimated life are as well as capital expenditure. For example, a machine with an expected life of 10 years is considerably reconstructed toward the end of its 7th of a year of utilisation, and that the unusual repairs are required to expand the life of the machine an extra 3 years past the genuine estimate. (Financialaccountancy.org)

Revenue expenditure is expenditure made for the purpose of managing the business, containing expenditure categorised as selling and distribution expenses, organisation costs and finance. The aim of the revenue expenditure is also to sustain the non-current resources in their current condition. Revenue expenditure is charged to the income statement of a period if it identifies with the trading activity and sales of the specific time frame. (BPP Learning Media, 2010, p. 305)

The sum caused in the obtaining of inventories available for sale or production is regarded as revenue expenditure. Expenditures that are insignificant in sum are normally considered as revenue expenditure however they may have the similar qualities of capital expenditures. (Financialaccountancy.org)

The main **differences** between **revenue expenditure** and **capital expenditure** are:

- Capital expenditure considered to be spent over the valuable life of the related non-current assets. Revenue expenditure considered to be spent in short timeframe. (Accountingtool.com)
- A more uncertain distinction is that capital expenditure will contain bigger financial amounts than revenue expenditure. The reason is that expenditure is categorised as a capital expenditure if it overreaches a specific threshold value. Otherwise, it automatically will be assigned as revenue expenditure. Nevertheless, certain vast expenditures can currently be characterised as revenue expenditures, while they are legitimately related with sale transactions or are period costs. (Accountingtool.com)
- Capital expenditure is expended to acquire non-current assets for use in business. Revenue expenditure is expended to manage business' everyday activities. (Financialaccountancy.org)
- Capital expenditure increases the acquiring capacity of the business. Revenue expenditure gets more benefits from the business. (Financialaccountancy.org)
- Capital expenditure advantages reach out to over one year. Revenue expenditure advantages reach out to only a year. (Financialaccountancy.org)
- Capital expenditure is debited to an assets account. Revenue expenditure is debited to an expense account. (Financialaccountancy.org)
- Capital expenditure appears in the balance sheet. Revenue expenditure is a component of the Profit and Loss account. (Financialaccountancy.org)
- Capital expenditure incorporates the expense of plant, hardware, building, land, furniture, and so forth. Revenue expenditure incorporates depreciation on the plant, machinery, rent, insurance, repairs, and so on. (Financialaccountancy.org)

CONCLUSION:

It can be concluded that accounting is an essential aspect of every organisation. Accounting helps companies to define their financial rights and responsibilities and to analyse the company's present performing. Accounting also gives to government, shareholders and management quantifiable financial information that helps for the organisation's decision-making.

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