



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Accounting Fundamentals

Module code: LCBB4001

Student name: Ovidiu Puchin

Student ID: 1907613

Lecturer: Dr. Rexton Nting

Contents

Introduction.....	3
Task 1: Maxim.....	4
Task 2: Pendo	8
Task 3: Mafuta	12
Task 4: Ricardo.....	18
Task 5: Analysing difference between capital expenditure and revenue expenditure.....	21
5.1 Capital expenditure and revenue expenditure.....	22
5.2 Difference between revenue expenditure and capital expenditure:-.....	23
Conclusion	26
Reference	27

Introduction

Organization need to record business transactions properly so that necessary financial reports can be kept. If an organization fails to record the financial transactions properly, there is high possibility that true picture of business will not be shown. Double entry system is the fundamental of accounting that ensues that every business transactions are recorded properly by debiting same amount with the credit amount. If transactions are not recorded using double entry system absurd result can be obtained. Generally, accounting cycle has 9 steps such as, identification, measurement of transactions and analysis, journalizing, ledger posting, trial balance, adjusting entries, adjusted trial balance, worksheet, financial statement, closing entries. On the other hand, the report contains an application of double entry system. It also shows an application of recording transactions using ledger, producing trial balance and preparing financial statements. At last, it provides a description of capital expenditure and revenue expenditures with a detailed differentiation between them.

Task 1: Maxim

a)

maxim ltd							
general ledger							
Date	Particulars	DR or CR	Account No.	Acc Name	Post ref	debit	credit
5-Apr	cash into the business of £300	Dr		Cash		£ 300.00	
		Cr		capital			£ 300.00
7-Apr	Purchased goods for £200						
		Dr		purchase		£ 200.00	
		Cr		cash			£ 200.00
8-Apr	Received loan from Tatiana of £250 repayable within twelve						£1,000.00
		Dr		cash		£ 250.00	
		Cr		loan payable			£ 250.00
15-Apr	Purchased a motor van for £150						
		Dr		Motor Van		£ 150.00	
		Cr		cash			£ 150.00
20-Apr	Sold goods for £350	Dr		cash		£ 350.00	
		Cr		sales			£ 350.00

28-Apr	Paid rent of £50						
		Dr		rent expense		£ 50.00	
		Cr		cash			£ 50.00
29-Apr	Repaid part of the loan £200						
		Dr		Loan payable		£ 200.00	
		Cr		cash			£ 200.00
30-Apr	Drew cash from the business £60						
		Dr		drawings		£ 60.00	
		Cr		cash			£ 60.00
30-Apr	Maxim had £100 goods in hand.						
		Dr		Inventory		£ 100.00	
		cr		cash			£ 100.00

b)

Trial balance of maxim corporation				
30 April,2019				
General Ledger				
Account Balance				
Account Name		Debit		Credit
Cash		£ 140.00		
capital				£
purchase		£ 200.00		
sales				£
Motor Van		£ 150.00		
loan payable				£
rent expense		£ 50.00		
drawings		£ 60.00		
inventory		£ 100.00		
	total	£ 700.00		£

Maxim ltd		
Profit and Loss Statement		
Years Ending: 30 April, 2019		
Revenue		2019
	Sales revenue	£ 350.00
Total Revenues		£ 350.00
Expenses		
	rent expense	£ 50.00
	drawings	£ 60.00
	purchase	£ 200.00
Total Expenses		£ 310.00
	Net Income Before Taxes	£ 40.00
	Income tax expense	
Net Income		£ 40.00

c)

MAXIM LIMITED		
30 April , 2019		
Assets		
1. Current assets		2016
Cash	£	140.00
inventory	£	100.00
Total current assets	£	240.00
2. Long term fixed assets		
Motor van	£	150.00
Total fixed assets	£	150.00
Total asset	£	390.00
Liabilities and owner's equity		
1. Current liabilities		
Loan payable	£	50.00
Total current liabilities	£	50.00
2 Long-term liabilities		
Long-term debt	-	
Total long-term liabilities	-	
3. Owner's equity		
Owner's investment	£	300.00
Retained earnings	£	40.00
Total owner's equity	£	340.00
Total (1+2+3)	£	390.00

Task 2: Pendo

a)

pendo ltd

general ledger

Date	Particulars	DR or CR	Account No.	Acc Name	Post ref	Debit	Credit
1-Jan	Pendo paid £5,000 into the business	Dr		Cash		£5,000.00	
		Cr		capital			£5,000.00
2-Jan	y Bought a motor van for £600						
		Dr		motor van		£ 600.00	
		Cr		cash			£ 600.00
3-Jan	Bought goods for £1,300						
		Dr		purchase		£1,300.00	
		Cr		cash			£1,300.00
4-Jan	Received a loan from Sergei £1,000 repayable within twelve						
		Dr		cash		£1,000.00	
		Cr		loan payable			£1,000.00
10-Jan	expenses on the motor van of £200	Dr		Repair and maintance of motor van		£ 200.00	
		Cr		cash			£ 200.00
13-Jan	Sold goods for £300						

		Dr		cash		£ 300.00	
		Cr		sales			£ 300.00
20-Jan	Sold goods for £500						
		Dr		cash		£ 500.00	
		Cr		sales			£ 500.00
24-Jan	Paid storage expenses £150						
		Dr		storage expense		£ 150.00	
		Cr		cash			£ 150.00
27-Jan	Repaid Sergei part of his loan £350						
		Dr		loan oayable		£ 350.00	
		Cr		cash			£ 350.00
30-Jan	Withdrew cash from the business						
		Dr		drawings		£ 175.00	
		Cr		cash			£ 175.00
31-Jan	Closing inventory was £800.						
		dr		closing stock		£ 800.00	
		cr		cash			£ 800.00

b)

**Trial balance of pendo corporation
30 April, 2019**

General Ledger

Account Balance				
Account Name		Debit		Credit
Cash		£ 3,225.00		
capital				£ 5,000.00
purchase		£ 1,300.00		
sales				£ 800.00
Motor Van		£ 600.00		
loan payable				£ 650.00
storage expense		£ 150.00		
drawings		£ 175.00		
closing inventory		£ 800.00		
repair and maintenance		£ 200.00		
total		£ 6,450.00		£ 6,450.00
Difference		£ -		

C)

Pendo Ltd. 30 April , 2019
--

Assets		
1. Current assets	£	2,016.00
Cash	£	3,225.00
Inventory	£	800.00
Total current assets	£	4,025.00
2. Long term fixed assets		
Motor van	£	600.00
Repair ad maintance	£	200.00
Total fixed assets	£	800.00
Total asset	£	4,825.00
Liabilities and owner's equity		
1. Current liabilities		
Loan payable	£	650.00
Total current liabilities	£	650.00
2. Long-term liabilities		
Long-term debt	-	
Total long-term liabilities	-	
3. Owner's equity		
Owner's investment	£	5,000.00
Retained earnings	£	825.00
Total owner's equity	£	4,175.00
Total (1+2+3)	£	4,825.00

Task 3: Mafuta

a)

	Recording transactions in ledger accounts of mafuta cash	
--	---	--

Date	Particulars	Post Ref	Debit \$	Credit \$	Balance	
cash						
1-Jan	Balance b/d		£ 343.00		£ 343.00	
7-Jan	AR-Moon		£ 18.00		£ 361.00	
11-Jan	Sales revenue		£ 64.00		£ 425.00	
21-Jan	Sales revenue		£ 110.00		£ 535.00	
23-Jan	AR-Harvey		£ 25.00		£ 560.00	
28-Jan	Sales revenue		£ 84.00		£ 644.00	
31-Jan	Sales revenue		£ 30.00		£ 674.00	
5-Jan	Wage expense			£ 12.00	£ 662.00	
9-Jan	AR-smith			£ 21.00	£ 641.00	
14-Jan	Wage expense			£ 14.00	£ 627.00	
14-Jan	Purchase			£ 75.00	£ 552.00	
15-Jan	Trade payable-Rich			£ 162.00	£ 390.00	
20-Jan	Office desk			£ 32.00	£ 358.00	
21-Jan	Wage expense			£ 17.00	£ 341.00	
23-Jan	Office expenses			£ 3.00	£ 338.00	
28-Jan	Wage expense			£ 15.00	£ 323.00	Dr
Capital Account						
1-Jan	cash			£ 1,049.00	£ 1,049.00	Cr
Inventory						
1-Jan	capital		£ 458.00		£ 458.00	dr

account payable-rich						
1-Jan	inventory			£ 12.00	£ 12.00	
	purchase			£ 150.00	£ 162.00	
	cash		£ 162.00		£ -	Cr
account payable-max						
1-Jan	inventory			£ 21.00	£ 21.00	
	cash		£ 21.00		£ -	Cr
AR- SMITH						
1-Jan	capital		£ 18.00		£ 18.00	
7-Jan	Cash			£ 18.00	£ -	Dr
AR-HARVEY						
1-Jan	capital		£ 39.00		£ 39.00	
2-Jan	sales		£ 124.00		£ 163.00	Dr
23-Jan	cash					
AR-MOON						
1-Jan	capital		£ 26.00		£ 26.00	Dr
sales						
2-Jan	AR-HARVEY			£ 124.00	£ 124.00	
11-Jan	cash			£ 64.00	£ 188.00	
21-Jan	cash			£ 110.00	£ 298.00	

28-Jan	CASH			£ 84.00	£ 382.00	
31-Jan	cash			£ 30.00	£ 412.00	CR
Wage						
5-Jan	cash		£ 12.00		£ 12.00	
14-Jan	cash		£ 14.00		£ 26.00	
21-Jan	cash		£ 17.00		£ 43.00	
28-Jan	CASH		£ 15.00		£ 58.00	DR
purchase						
5-Jan	account payable-rich		£ 150.00		£ 150.00	
14-Jan	cash		£ 75.00		£ 225.00	DR
office desk						
20-Jan	cash		£ 32.00		£ 32.00	DR
office expense						
20-Jan	cash		£ 3.00		£ 3.00	DR

b)

Trial balance of Mafuta corporation			
30 April, 2019			
General			
Ledger			
Account			
Balance			
Account Name	Ledger no	Debit	Credit

Cash	Ledger no	£ 323.00		
Capital account				£ 1,049.00
Inventory		£ 458.00		
Account payable-rich		£ -		
Account payable-max				£ -
Ar- smith		£ -		£ -
Ar-harvey		£ 138.00		
Ar-moon		£ 26.00		£ -
Sales				£ 412.00
Wage		£ 58.00		
Purchase		£ 225.00		
Office desk		£ 32.00		
Office expense		£ 3.00		
Furniture and fittings		£ 198.00		
Total		£ 1,461.00		£ 1,461.00
Difference			£ -	

c)

Mafuta
Income statement
For the month ended 31st January

Sales revenue		£ 412.00
Less: Cost of sales		
Beginning inventory	£ 458.00	
Purchases	£ 225.00	
Wages	£ 58.00	
Less: Closing inventory	-£ 374.00	
Cost of sales		£ 367.00
Gross profit		£ 45.00
Less: Operating expenses		
Office expenses	£ 3.00	
Total operating expense		£ 3.00
Net profit		£ 42.00

Mafuta
Statement of financial position
As at 31st January

Assets		
Cash	£ 323.00	
Furniture and fittings	£ 198.00	
Office desk	£ 32.00	
Trade receivables- Harvey	£ 138.00	
Trade receivable- Moon	£ 26.00	
Inventory	£ 374.00	
Total assets		£ 1,091.00
Liabilities and equity		
Owner's capital	£ 1,049.00	
Add: Profit for the year	£ 42.00	
Total equity	£ 1,091.00	
Total liabilities and equity		£ 1,091.00

Task 4: Ricardo

a)

	ledger accounts of Ricardo cash	
--	--	--

Date	Particulars	Post Ref	Debit \$	Credit \$	Balance	
20-Jun	Sales revenue		6,000		£ 6,000.00	
24-Jun	Trade receivable- Claire		7,125		£13,125.00	
25-Jun	Trade receivable- Hywel		8,550		£21,675.00	
25-Jun	Trade payables- Georgina			11,160	£10,515.00	
27-Jun	Trade payables- Andrew			4,410	£ 6,105.00	Dr

sales revenue						
2-Jun	Trade receivable-Claire			8,500	£ 8,500.00	
13-Jun	Trade receivable- Hywel			8,550	£17,050.00	
20-Jun	Cash			6,000	£23,050.00	
24-Jun	Trade receivable- Mandy			5,000	£28,050.00	Cr

Purchase						
13-Jun	Trade payable- Georgina		12,000		£12,000.00	
21-Jun	Trade payable- Andrew		4,500		£16,500.00	Cr

Trade receivable- Claire						
2-Jun	Sales revenue		8,500		£ 8,500.00	
22-Jun	Sales returns			1,000	£ 7,500.00	
24-Jun	Cash			7,125	£ 375.00	
24-Jun	Sales discount			375	£ -	Dr

Trade receivable- Hywel						
14-Jun	Sales revenue		8,550		£ 8,550.00	

24-Jun	Cash			8,550	£ -	Dr
--------	------	--	--	-------	-----	----

Trade payable- Georgina						
21-Jun	Purchase				£12,000.00	
25-Jun	Cash		11,160		£ 840.00	
25-Jun	Purchase discount		840		£ -	Cr

Trade payable- Andrew						
21-Jun	Purchase			£ 4,500.00	£ 4,500.00	
27-Jun	Cash		4,410		£ 90.00	
27-Jun	Purchase discount		90		£ -	Cr

Sales return						
22-Jun	Trade receivable- Claire		£ 1,000.00		£ 1,000.00	
	Cash			£ 18.00	£ 982.00	Dr

Trade receivable- Mandy						
24-Jun	Sales revenue		£ 5,000.00		£ 5,000.00	
	sales					
Sales discount						
24-Jun	Trade receivable- Claire		£ 375.00		£ 375.00	Dr

Purchase discount						
25-Jun	Trade payable- Georgina			840	£ 840.00	

27- Jun	Trade payable- Andrew			90	£ 930.00	Cr
------------	-----------------------	--	--	----	----------	----

b)

Ricardo			
Trial balance			
1	Cash	£ 6,105.00	
2	Sales revenue		£ 28,050.00
3	Trade receivable- Claire	-	
4	Purchase	£ 16,500.00	
5	Trade receivable- Hywel	-	
6	Trade payable- Georgina		-
7	Trade payable- Andrew		-
8	Sales return	£ 1,000.00	
9	Trade receivable- Mandy	£ 5,000.00	
10	Sales discount	£ 375.00	
11	Purchase discount		£ 930.00
		£ 28,980.00	£ 28,980.00

Task 5: Analyzing difference between capital expenditure and revenue expenditure

5.1 Capital expenditure and revenue expenditure:

Capital expenditure:

According to Horngren et al. (2015), “The amount spent by organisation is to acquire or improve a long-term asset such as equipment or buildings is called capital expenditure”. Capital expenditures are usually used by a company to acquire, upgrade, and maintain physical assets such as property, buildings, industrial plant etc. It tells you how much a company is investing in existing and new fixed assets to maintain or grow the business.

The formula for capital expenditure:-

$$\text{Capital expense} = \Delta \text{PP\&E} + \text{Current Depreciation}$$

Here, $\Delta \text{PP\&E}$ means changes in property plant and equipment.

There are basically two forms of capital expenditure. These are given below:-

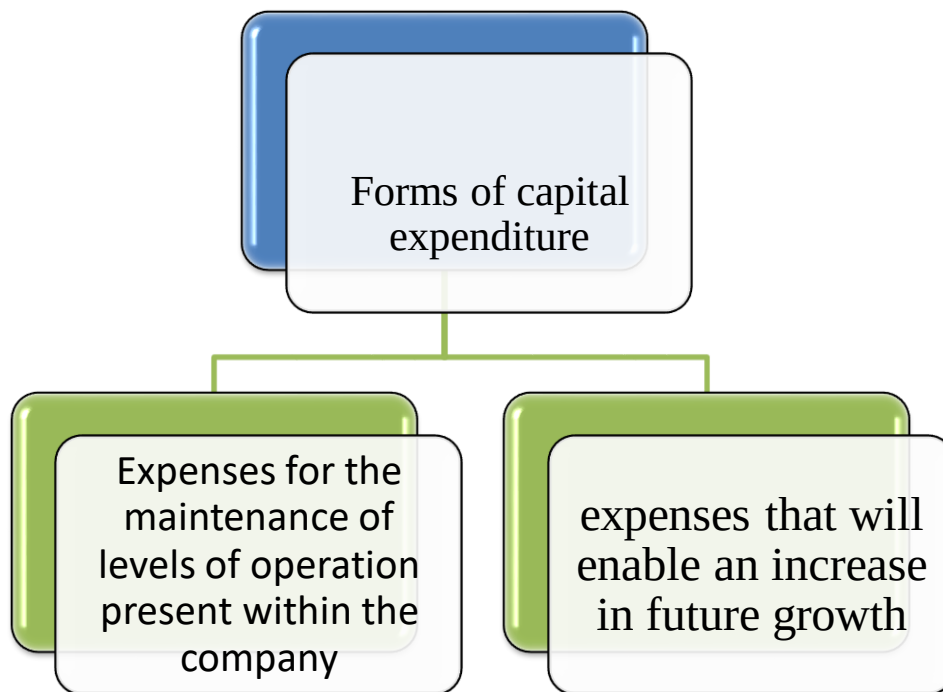


Figure: Forms of capital expenditure,

Source: Author

Capital expenditures are recognized and subsequently measured under IAS 16- Property Plant and Equipment. Organization needs to think how much to invest in capital expenditures, (Partington, 2010). As a result, decisions on capital expenditures considered as extremely vital decisions.

Revenue expenditure: The expenditure which is incurred for the purpose of meeting the operational activities which are needed for regular basis (Kieso, 2013). Revenue expenditure are the costs that are related to specific revenue transactions in the operating circle such as purchase of materials, carriage, freights, selling and administrative expenses, cost of goods sold or repairs and maintenance expense etc, (Parsons, 2012). There are basically two forms of revenue expenditure. These are given below:-

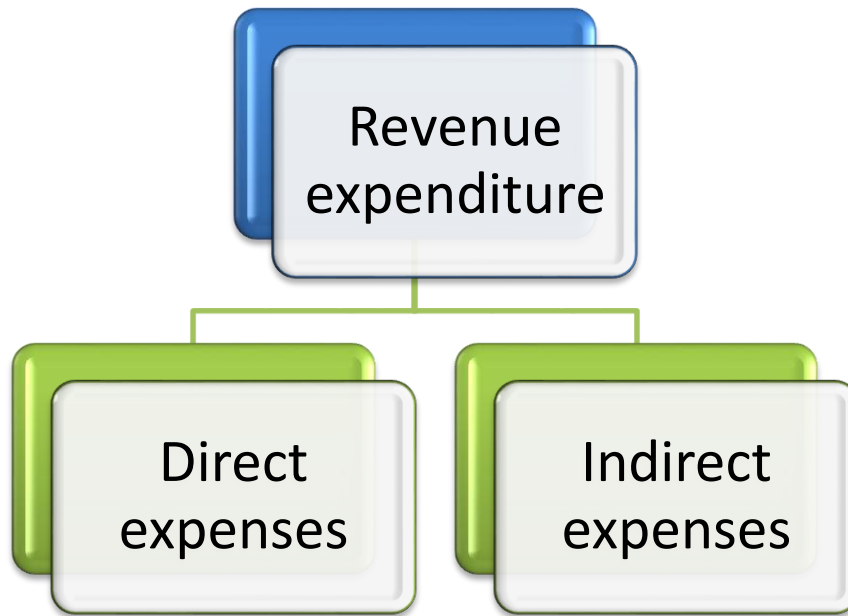


Figure: Types of revenue expenditure

Source: Author

5.2 Difference between revenue expenditure and capital expenditure:-

	Capital expenditure	revenue expenditure
Definition	Cash spent on investment in the business is considered as capital expenditure, (Kieso, et al., 2010)	Cash spent on day to day operations is considered as revenue expenditure.
Example	plant and machinery, furniture and fittings, IT infrastructure, factory building etc.	Raw materials, energy cost, labor cost, delivery cost etc
Purpose of use	expenditure is made for purchasing the fixed assets from which a business will receive economic benefits for a longer period of time, (Fahlevi, 2018).	Revenue expenditures are incurred or made to meet the specific needs of business such as generating revenue or conducting business activities,
Timing	Capital expenditures are charged to expense gradually via depreciation, and over a long period of time which means that capital expenditures are recognized as expense gradually	Revenue expenditures are charged to expense in the current period which mean that revenue expenditures are recognized instantly.
consumption	A capital expenditure is assumed to be consumed over the useful life of the related fixed asset, (Loughran, 2011).	A revenue expenditure is assumed to be consumed within a very short period of time,
size	Capital expenditures tend to involve larger monetary amounts than revenue expenditure (Yang, 2014).	An expenditure is only classified as a revenue expenditure if it do not exceed a certain threshold value. In this sense the revenue expenditure is always be lower than the capital expenditures.
Occurrence	capital expenditure is non-recurring which means that management of an organization make capital expenditure when they feel there is any need of capital expenditure,	revenue expenditure is recurring because when revenue is generated, the cost associated to generating revenue is incurred, (Wulandari et al., 2019)

Physical existence	Capital expenditure has physical existence	revenue expenditures do not have any physical existence because it is incurred for daily business operation and consumed subsequently, (Dereshiowsky, 2011).
Presentation	Generally, capital expenditure is presented in the statement of financial position.	revenue expenditure is presented on income statement

Conclusion

From the above application it has been observed that if the transactions are not posted according to double entry system, the trial balance and financial statements will not match because in the double entry system, we may not record each of the transactions with equal amount of debit and credit. Double entry system proves the accounting equation. $A=L+OE$, here total asset will be equal to total liabilities and equities due to recording transaction in double entry system. If the trial balance and financial statements will not match, no analysis can be done from unmatched trial balance and financial statements. If any decision is taken from the uncorrected statement, there is higher possibility that biased decisions can be taken. It will not good for a business.

Reference

- Dereshiwsy, M. and Rich, A. (2011). Assessing the comparative effectiveness of teaching undergraduate intermediate accounting in the online classroom format. In TCC Worldwide Online Conference. TCC Hawaii. pp. 113-126
- Fahlevi, H. (2018). Revenue Budget Variance and Capital Expenditure Realization Empirical Evidence from Indonesian Local Governments. *Jurnal Dinamika Akuntansi*, 9(1), pp.1-10.
- Gregory, R. (2011). Investor Protection and Capital Expenditures Under Endogenous Time Inconsistency. *SSRN Electronic Journal*, (22-24).
- Horngren, C., Datar, S. and Rajan, M. (2015.). *Cost accounting*. pp.147-150.
- K.C., J. (2018). Capital versus Revenue: Receipts, Expenditures, Profits and Losses in Accounting and Taxation. *NCC Journal*, 3(1), pp.71-81.
- Kieso, D., Weygandt, J. and Warfield, T. (2013). *Intermediate accounting*. pp.234-237.
- Kieso, D.E., Weygandt, J.J. and Warfield, T.D. (2010). *Intermediate accounting: IFRS edition (Vol. 2)*. John Wiley & Sons. pp.222-235.
- Loughran, M. (2011) *Financial Accounting for Dummies*. New Jersey: Wiley Publishing.
- Parsons, G. (2012). Expenditure: capital or revenue?. *Property Management*, 7(3), pp.220-225.
- Partington, G. (2010). FINANCIAL DECISIONS, THE COST(S) OF CAPITAL AND THE CAPITAL ASSET PRICING MODEL. *Journal of Business Finance & Accounting*, 8(1), pp.97-112.
- Wulandari, F., Kalsum, U. and ., U. (2019). ANALISIS PERLAKUAN AKUNTANSI CAPITAL EXPENDITURE DAN REVENUE EXPENDITURE MENURUT PSAK NO. 16 PADA PT. JOHAN PRATAMA. *JURNAL MANAJEMEN DAN BISNIS SRIWIJAYA*, 16(4), pp.252-264.
- Yang, J. (2014). HAS CAPITAL EXPENDITURE DECISION LOST ITS VALUE RELEVANCE OVER YEARS?. *Journal of International Finance Studies*, 14(1), pp.141-150.