

IBOLYA MACZO

Accounting fundamentals

Essay on Accounting fundamentals

LCBB 4001

BA (Hons) Business Management

2021/11/06

Journals for the additional information

NAME OF THE ACCOUNT	£	DEBIT	CREDIT
Accounts payable	25,680		25,680
Accounts receivable	30,700	30,700	
Carriage inwards	1,840	1,840	
Computer equipment at cost	4,500	4,500	
Carriage outwards	3,280	3,280	
Drawings	26,000	26,000	
Electricity	2,480	2,480	
Loan interest	300	300	
Provisions for doubtful debt	450		450
Insurance (3360-640)	3,360	3,360	
Motor vehicles at cost	53,900	53,900	
Capital	48,000		48,000
Opening inventory	13,200	13,200	
Accumulated depreciation-motor vehicles	15,000		15,000
Accumulated depreciation-computer equipment	2,640		2,640
Petty cash	50	50	
Bank overdraft	2,880		2,880
Wages	67,440	67,440	
Purchases	126,800	126,800	
Rent	23,760	23,760	
Sales	256,400		256,400
Telephone	1,440	1,440	
Long-term Loan	8,000		8,000

Journal Enrties

Account Title and Explanation	DEBIT	CREDIT
Inventory at the end of the year	14400	
Income summary		14400
Depreciation expense - Motor Vehicle	11670	
Accumulated depreciation - Motor Vehicle		11670
Depreciation expense -Computer Equipment	900	
Accumulated depreciation - Computer Equipment		900
Taxes	1500	
Sandrolia LTD account		1500

Updated Trial Balance for Sandrolia Ltd. on the 31st December 2019

NAME OF THE ACCOUNT	£	DEBIT	CREDIT
Accounts payable	25,680		25,680
Accounts receivable	30,700	30,700	
Carriage inwards	1,840	1,840	
Computer equipment at cost	4,500	4,500	
Carriage outwards	3,280	3,280	
Drawings	26,000	26,000	
Electricity	2,480	2,480	
Loan interest	300	300	
Provisions for doubtful debt	450		450
Insurance (3360-640)	3,360	2,720	
Motor vehicles at cost	53,900	53,900	
Capital	48,000		48,000
Opening inventory	13,200	13,200	
Accumulated depreciation-motor vehicles	15,000		26,670
Accumulated depreciation-computer equipment	2,640		3,540
Petty cash	50	50	
Bank overdraft	2,880		2,880
Wages	67,440	67,440	
Purchases	126,800	126,800	
Rent	23,760	23,760	
Sales	256,400		256,400
Telephone (1,440+180)	1,440	1,620	
Long-term Loan	8,000		8,000
Telephone expense payable			180
Prepaid insurance		640	
Tax expense		1500	
Tax payable			1500
Depreciation of Motor vehicle		11670	
Depreciation of computer equipment		900	
<u>TOTAL</u>		<u>373,300</u>	<u>373,300</u>

Sandrolia Ltd Statement of profit or loss for the year ending 31st december 2019

Items	£	£	£
Sales			256,400
opening inventory		13,200	
Purchase		126,800	
Carriage inwards		1,840	
Wages		67,440	
Less: Cost of goods sold		209,280	
Less: Closing inventory		14,400	194,880
Gross Profit			61,520
Less: Operating expenses	£	£	£
Carriage outwards		3,280	
Electricity		2,480	
Insurance	3,360		
Less Prepaid insurance	640	2,720	
Rent		23,760	
Telephone	1,440		
Add: Payable	180	1,620	
Depreciation:			
Motor vehicle	11,670		
Computer equipment	900	12,570	
Provision for doubtful debt		-450	
Operating Profit			15,540
Less: Other expenses:	£	£	£
Loan interest			300
Profit before tax			15,240
Less: tax			1500
Profit after tax			13,740

Items	£	£	£
Asset:			
<u>Non - current assets</u>			
Motor vehicles	53,900		
Less: accumulated depreciation-motor vehicle	26,670	27,230	
Computer equipment	4,500		
Less: accumulated depreciation-computer equipment	3,540	960	
Total non- current assets			<u>28,190</u>
Current assets:			
Accounts receivable		30,700	
Petty cash		50	
Ending inventory		14,400	
Prepaid insurance		640	
Total current assets			<u>45,790</u>
Total Assets			<u>73,980</u>

Assets	£
Computer equipment	960
Motor vehicles	27,230
Assount receivable	30,700
Cash	50
Inventory	14,400
Total	<u>73340</u>
 Cpital and Liabilities	
Capital	48,000
Profit for the period	12,940
Drawings	/26,000/
	<u>34,940</u>
 Non - current liabilities	
Long-term loan	8,000
 Current liabilities	
Overdraft	2,880
Accrual	1,680
Account payables	25,680
Provisions for double debt	450
<u>Total capital and liabilities</u>	<u>30,690</u>

Critical assessment of the relevance of financial statements to users

Its purpose is to summarize the company's financial data, must comply with the law.

(honesty and transparency are important) Balance sheet , income statement,cash flow statement and statement of changes in equity,exchange between society also provides important information about companies.

The Financial statimnet is useful because we can gain full knowledge of the financial situation of the company. Is a great help to those who are indecisive, want to get involved in a business but do not dare or just want to continue but would not know what is right.

The most interested parties are those who have financial needs (f.e : banks, capital investment firms,company managers, customers, suppliers,tax authorities)

Balance sheet is summarizes everything what is the company owns or owes.

Income statement is the second key document of financialstatement, report the business activity of the company.

Flow statement the last document and that is really grounded it reality.

3. Ricardo Ledger's accountJournals for the additional information:

Journal entries	Debit/ Amount £	Credit/ Amount £
Depreciation (fittings)	384	
Accumulated depreciation (fitting)		384
Depreciation (buildings)	1000	
Accumulated depreciation (buildings)		1000
Advanced account	360	
Retes expense		360
Allowance for doubtful debt	600	
Accountsreceivables		600
bad debts expense	282	
Allowance for doubtful debt		282

Ricardo's Adjusted Trade Balance 31 December 2017

NAME OF THE ACCOUNTS	Debit amount £	Credit amount £
Fittings	7,300	
Accumulated depreciation-fittings		2,884
Building	30,000	
Accumulated depreciation-building		7,000
inventory	15,000	
Trade receivables	9,400	
Allowance for doubtful debts		482
Cash in hand	50	
Cash in bank	1000	
Trade payable		18,000
Capital		19,050
Drawings	5,000	
Purchase	80,000	
Revenue		120,000
Wages	12,000	
Advertising	4,000	
Rates	1440	
Bank Charge	200	
Bad debt expense	282	
Advanced notes	360	
Depreciation-fitting	384	
Depreciation-building	1,000	
Total	167,416	167,416

Ricardo's Statement of profit and losses for the year ending 31 December 2017

Items	£	£	£
Revenue			120000
Less :cost of goods sold			
Opening inventory	15000		
Purchase	80000		
Wages	12000		
	107000		
Less: Ending inventory	21000	86000	
Gross Profit			34000
Less :operating expenses			
Advertising	4000		
Rates (adjusted)	1440		
Depreciation:			
Fittings	384		
Building	1000		
Bad debt allowance	-482		
Add:Bad debt expense	282	-200	6624
Operating Profit			27376
Less:other expenses			
Bank charge			200
Netto Profit			27176

Ricardo's Balance Sheet 31 December 2017

Items	£	£	£
Assets			
Non -current assets			
Fittings	7300		
Less:Accumulated depreciation	2884	4416	
Building	30000		
Less:Accumulated depreciation	7000	23000	
Total non-current assets			<u>27416</u>
Current assets			
Cash in hand		50	
Cash in bank (adjusted)		1000	
Trade receivables		9400	
Inventory ending		21000	
Prepaid rates		360	
Total current assets			<u>31810</u>
Total Assets			<u>59226</u>
Equities and Liabilities			
Liabilities			
Trade payables			18000
Total liabilities			<u>18000</u>
Equities			
Capital		19050	
Add: net income		27176	
Less:drawingd(adjusted)		5000	
Total equities			<u>41226</u>

Total equities and liabilities |**59226**

4. Liquidity and Profitability

Liquidity is a very important financial indicator for any business, a major factor in long-term profits. The main **difference** between **profitability** and **liquidity** is that while profitability is a measure of a company's profits, liquidity is the ability to quickly convert assets into cash.

Profit is called the difference between total revenue and total operating expenses. Profit maximization is important for any company. Profits are grouped. A number of statements are prepared using appropriate results data, which allow comparisons with prior periods as well as other similar companies and facilitate financial decision-making.

This is because the company needs cash for its day-to-day business. This includes

- Production and selling expenses
- Payment of employees' salaries
- Payments to creditors, tax authorities and interest on borrowed funds

By carrying out the continuous activities mentioned above, the business cannot survive to make a profit.

Summary of the difference between profitability and liquidity is the existence of profit and cash. Profit is the most important measure of a company's stability, and it is in the primary interest of shareholders. Profit is most important, but you may not be able to stay in business. If a company does not have enough liquidity, most companies invest in projects. For a lot of money, a company with cash or liquidity may not be profitable and have not used existing resources profitably.

