



ACCOUNTING FUNDAMENTALS

(LCBB 4001)



University of Wales Trinity Saint David

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INTRODUCTION

In the form of a financial statement showing the economic resources in monetary terms, the accounting transmits financial information about the business object to the users shareholders and managers. The principles of accountancy are applied to business entities in three division of practical art, named accounting, bookkeeping and auditing.
(Elliot, Barry & Elliot, Jamie: Financial Accounting and Reporting, Prentice Hall, London, 2004 p.3)

Task 1

Ledger accounts:

Cash Account

Dr			Cr		
Date	Description	Amount	Date	Description	
5 April	Capital	£ 300,00	7 April	Purchase goods	£ 200,00
8 April	Loan from Tatiana	£ 250,00	15 April	Motor van	£ 150,00
20 April	Sold goods	£ 350,00	28 April	Rent	£ 50,00
			29 April	Repaid loan	£ 200,00
			30 April	withdraw	£ 60,00
		900			
	Balancing figure c/d	240			£ 660,00

Purchase goods

Dr			Cr		
Date	Description	Amount	Date	Description	
7 April	Cash	£ 200,00			

Motor Van

Dr			Cr		
Date	Description	Amount	Date	Description	
15 April	Cash	£ 150,00			

Rent

Dr			Cr		
Date	Description	Amount	Date	Description	
28 April	Cash	£ 50,00			

Capital

Dr			Cr		
Date	Description	Amount	Date	Description	
30 April	Cash	£ 60,00	5 April	Cash	£ 300,00
				Balancing figure c/d	£ 240,00

Loan from Tatiana

Dr			Cr		
Date	Description	Amount	Date	Description	
29 April	cash	200	8 April		£ 250,00
				Balancing figure c/d	£ 50,00

Sales

Dr			Cr		
Date	Description	Amount	Date	Description	
			20 April	cash	350

Drawing

Dr			Cr		
Date	Description	Amount	Date	Description	
30 April	Cash	£ 60,00			

Journal keeps record of all transactions in chronological order and shows information about account name, amounts, debit or credit side.

Journal entries in the Books of Maxim

date	Description		Dr	Cr
5 April	Cash		£ 300,00	
	Capital			£ 300,00
	(Introduce cash into the business)			
7 April	Purchase		£ 200,00	
	Cash			£ 200,00
	(Purchase goods)			
8 April	Cash		£ 250,00	
	Loan from Tatiana			£ 250,00
	(Loan from Tatiana repayable within twelve months)			
15 April	Motor van		£ 150,00	
	Cash			£ 150,00
	(Purchased a motor van)			
20 April	Cash		£ 350,00	
	Sales			£ 350,00
	(Sold goods)			
28 April	Rent account		£ 50,00	
	Cash			£ 50,00
	(Paid rent)			
29 April	Loan from Tatiana		£ 200,00	
	Cash			£ 200,00
	(repaid part of the loan)			
30 April	Withdraw		£ 60,00	
	Cash			£ 60,00
	(Drew cash from the business)			
30 April			1560	1560

A trial balance is a list of all the general ledger accounts contain in the ledger of the business.

For each debit entry, there is a credit entry and for each credit entry is a debit entry.
The total of all the items recorded in all the accounts on the debit side
should equal the total of all the items recorded on the credit side of the accounts.
To check that we prepare Trial Balance

Trail Balance as at 30 April

Description			Dr	Cr
Cash			£ 240,00	
Capital				£ 240,00
Purchase			£ 200,00	
Motor Van			£ 150,00	
Rent			£ 50,00	
loan payment				
Current Liabilities				
(Loan from Tatiana)				£ 50,00
Sales				£ 350,00
		Total	£ 640,00	£ 640,00

Income /Revenue and Expenses for a specified period of time
are reported in a financial Profit and Loss Statement.
It is usually prepared for 3 months or a year.
Profit and Loss Statement also is called Income Statement.
The entity uses the income statement to assess its financial position.

Loss and profit statement

		Dr	Cr	
Sales			£ 350,00	SALES REVENUE
Purchase		£ 200,00		MINUS
(-) goods in hand at 30 April		£ 100,00	£ 100,00	
Gross profit			£ 250,00	EXPENSES
(-)Expenses				EQUALS
Rent		£ 50,00		
loan		£ 200,00	£ 250,00	PROFIT
Net profit			£ -	

Balance sheet informs the reader of
a company's financial position as of one moment in time.

		Dr	Cr
Total Assets:		£ 490,00	
Fixed assets			
motor van		£ 150,00	
Current assets			
Cash		£ 240,00	
goods in hand		£ 100,00	£ 340,00

Liabilities					
Loan					£ 250,00
Capital					£ 300,00
(+) Net Profit					£ -
(-)Drawing					£ 60,00
New Capital					£ 240,00

Task 2

The Ledger Account is a form of calculation to determine the status and changes occurred in each particular site for a specified time. It represents a form and measurement which summarizes the changes that occurred in the assets, liabilities as a result of the economic processes.

Active ledger accounts are used for the assets as the initial condition, all increases and the final balance are reflected in the debits, and the cuts in the credit site.

In the liabilities the initial condition, all increases and final balance are reflected in the credit site. and the cuts in the debit.

Cash Account

				Cr	
Date	Description	Amount	Date	Description	
1 Jan	Capital	£ 5 000,00	2 Jan	Motor van	£ 600,00
4 Jan	Loan from Sergei	£ 1 000,00	3 Jan	Purchase goods	£ 1 300,00
13 Jan	Sold goods	£ 300,00	10 Jan	Motor Van	£ 200,00
				Expenses	
20 Jan	Sold goods	£ 500,00	24 Jan	Storage expense	£ 150,00
			27 Jan	Repaid loan	£ 350,00
			30 Jan	Withdraw	£ 175,00
		£ 6 800,000			£ 2775,000
Closing balance		£ 4 025,000			

Capital

Dr				Cr	
Date	Description	Amount	Date	Description	
30 Jan	Cash	£ 175,00	1 Jan	Cash	£ 5 000,00
				Closing balance c/d	£ 4,825

Motor Van

Dr				Cr	
Date	Description	Amount	Date	Description	
2 Jan	Cash	£ 600,00			

Purchase goods

Dr				Cr	
Date	Description	Amount	Date	Description	
3 Jan	Cash	£ 1 300,00			

Loan from Sergei

Dr				Cr	
Date	Description	Amount	Date	Description	
27 Jan	Cash	£ 350,00	4 Jan	Cash	£ 1000,00
				Balancing figure c/d	£ 650,00

Sales

				Cr	
Date	Description	Amount	Date	Description	
			13 Jan	cash	£ 300,00

2 Jan	Cash	£	500,00
	Closing balance c/d	£	800,00

Storage Expenses

			Cr	
Date	Description	Amount	Date	Description
24 Jan	Cash	£ 150,00		

Motor Van Expenses

Dr			Cr	
Date	Description	Amount	Date	Description
10 Jan	Cash	£ 200,00		

Closing inventory £ 800,00

The Journal is a record for storing all business operations in a detailed descriptive chronological order form. Journal entries are important, because they allow us to sort our transactions into manageable data.

JOURNAL

Journal entries in the book of Pendo for the month of January

Date	Description		Dr	Cr
1 Jan	Cash		£ 5 000,00	
	Capital			£ 5 000,00
	(Introduce cash into the business)			
2 Jan	Motor van		£ 600,00	
	Cash			£ 600,00
	(Purchased a motor van)			
3 Jan	Purchase		£ 1 300,00	
	Cash			£ 1 300,00
	(Bough goods)			
4 Jan	Cash		£ 1 000,00	
	Current liabilities			£ 1 000,00
	(Loan from Sergei)			
10 Jan	Motor Van Expenses		£ 200,00	
	Cash			£ 200,00
	(Paid expenses on the Motor Van)			
13 Jan	Cash		£ 300,00	
	Sales			£ 300,00
	(Sold goods)			
20 Jan	Cash		£ 500,00	
	Sales			£ 500,00
	(Sold goods)			
24 Jan	Storage expenses		£ 150,00	
	Cash			£ 150,00

27 Jan	Loan from Sergei			£ 350,00	
	Cash				£ 350,00
	(Repaid Sergei part of his loan)				
30 Jan	Capital			£ 175,00	
	Cash				£ 175,00
	(withdrew cash from the business)				
31 Jan				£ 9,425	£ 9,425

The Income Statement provides information of the performance of the organization. For this reason, it includes elements that represent revenue, costs and financial results. The first key element is the revenue that reflects the increase in the economic benefits of an enterprise over a given time interval.

Expenses are a reduction in economic benefits. Their characteristic is opposite to that of revenue.

Reducing benefits can be realized by leaking or reducing assets or by accumulating liabilities. The financial result is the third element that reflects the effect of an enterprise's business and the difference between revenue and expenditure.

Depending on the character, it is positive - profit or negative - loss

Profit and Loss Statement

				Dr	Cr	
Sales					£ 800,00	Sales Revenue
Purchase				£ 1 300,00		minus
(-) goods in hand at 30 April				£ 800,00	£ 500,00	
Gross profit					£ 300,00	Expenses
(-) Expenses						equals
Moto Van				£ 200,00		
Storage				£ 150,00		Profit
Loan				£ 350,00	£ 700,00	
Net profit/loss					-£ 400,00	

Statement of Financial Position at 31 January

Total Assets:			£ 5,425		Non - current Assets plus Current Assets	
Fixed assets						
motor van			£ 600,00			
					minus	
Current assets						
Cash			£ 4 025,000			
goods in hand			£ 800,00	£ 4 825,000	Current and Non - current Assets liabilities	
Liabilities						
loan				£ 1 000,000	equals	
Capital				£ 5 000,000	Ownership Interest	
(+) Net Profit/loss				-£ 400,00		
(-) Drawing				£ 175,00		
New Capital				£ 4,425		

business

The Trial Balance is a list of account balances arranged according to whether they are debit balances or credit balances It is a snapshot of the balances on the ledger accounts at the last day of the accounting period.

Trail Balance as at 31 January

Description			Dr	Cr
Cash			£ 4 025,000	
Capital			£ 4 825,000	
Purchase			£ 1 300,000	
Motor Van			£ 600,00	
Motor van expenses			£ 200,00	
Storage Expenses			£ 150,00	
Current Liabilities				
(Loan from Sergei)				£ 650,000
Sales				£ 800,00
		Total	£ 6 275,000	£ 6 275,000

Task 3

Cash Account

Dr			Cr		
Date	Description	Amount	Date	Description	
1.яну		£ 343,000	5.яну	Wages	£ 12,00
7.яну	Smith	£ 18,000	9.яну	Max	£ 21,00
	sales	£ 64,00			
23 Jan	Harvey	£ 25,000	14 Jan	Wages	£ 14,00
21 Jan	sales	£ 110,00	14 Jan	purchase	£ 75,00
28 Jan	sales	£ 84,00	15 Jan	Rich	£ 162,00
31 Jan	sales	£ 30,000	20 Jan	office desk	£ 32,00
		£ 674,000	21 Jan	Wages	£ 17,00
			23 Jan	office expenses	£ 3,00
			28 Jan	wages	£ 15,00
Closing balance		£ 323,00			£ 351,00

Smiths Account

Dr			Cr		
Date	Description	Amount	Date	Description	
1 Jan		£ 18,00	7 Jan		£ 18,00

Harveys Account

Dr			Cr		
Date	Description	Amount	Date	Description	
1 Jan		£ 39,00			
2 Jan	on credit	£ 124,00	23 Jan	cash	£ 25,00
Closing balance		£ 138,00			

Moons Account

Dr			Cr		
Date	Description	Amount	Date	Description	
		£ 26,00			

Rich

Dr			Cr		
Date	Description	Amount	Date	Description	
			1 Jan		£ 12,00
15 Jan	Cash	£ 162,00	5 Jan		£ 150,00

Max

Dr			Cr		
Date	Description	Amount	Date	Description	
9 Jan		£ 21,00	1 Jan		£ 21,00

Wages

Dr			Cr		
Date	Description	Amount	Date	Description	
5 Jan	Cash	£ 12,00			
14 Jan	Cash	£ 14,00			
21 Jan	Cash	£ 17,00			
28 Jan	Cash	£ 15,00			
		£ 58,00			

Sales

Dr				Cr			
Date	Description	Amount		Date	Description		
				2 Jan	Harvey	£	124,00
				11 Jan	Cash	£	64,00
				21 Jan	Cash	£	110,00
				28 Jan	Cash	£	84,00
				31 Jan	Cash	£	30,00
					Closing balance	£	412,00

Purchase

Dr				Cr			
Date	Description	Amount		Date	Description		
5 Jan	Rich ac	£	150,00				
14 Jan	Cash	£	75,00				
		£	225,00				

Office expenses

Dr				Cr			
Date	Description	Amount		Date	Description		
23 Jan	Cash	£	3,00				

Office desk

Dr				Cr			
Date	Description	Amount		Date	Description		
20 Jan	Cash	£	32,00				

Inventory at cost was 374.00

Journal of accounts entries

The Journal is a record for storing all business operations in a detailed descriptive form.

Date	Description		Dr	Cr
2 Jan	Account receivable		£ 124,00	
	(sold goods to Harvey)			
	Goods			£ 124,00
5 Jan	Wages		£ 12,00	
	Cash			£ 12,00
5 Jan	Purchase		£ 150,00	
	Account payable			£ 150,00
7 Jan	Cash		£ 18,00	
	Smith			18,000
9 Jan	Max		£ 21,00	
	Cash			£ 21,00
11 Jan	Cash		£ 64,00	
	Sales			£ 64,00
14 Jan	Wages		£ 14,00	
	Cash			£ 14,00
14 Jan	Purchase		£ 75,00	
	Cash			£ 75,00

15 Jan	Rich			£	162,00	
	Cash					£ 162,00
20 Jan	Office desk			£	32,00	
	Cash					£ 32,00
21 Jan	Wages			£	17,00	
	Cash					£ 17,00
21 Jan	Cash			£	110,00	
	Sales					£ 110,00
23 Jan	Office expenses			£	3,00	
	Cash					£ 3,00
23 Jan	Cash			£	25,00	
	Harvey					£ 25,00
28 Jan	Cash			£	84,00	
	Sales					£ 84,00
28 Jan	Wages			£	15,00	
	Cash					£ 15,00
31 Jan	Cash			£	30,00	
	Sales					£ 30,00
				£	956,00	£ 956,00

The Trial Balance is used as the basis for preparing Income Statement and Statements of financial position
Profit means the amount by which revenue is greater then expenses for set of transaction

Loss and profit statement

				Dr	Cr
Sales					£ 412,00
Purchase				£ 225,000	
(+)Inventory				£ 458,000	
(-) goods in hand at 30 Jan				£ 374,00	£ 309,00
Gross profit					£ 103,00
(-)Expenses					
Wages				£ 58,00	
Office expenses				£ 3,00	£ 61,00
Net profit/loss				£ 42,00	

Total Assets:			£	1,091	
Fixed assets					
Furniture and fittings			£	198,00	
Office desk			£	32,00	£ 230,00
Current assets					
Cash			£	323,000	
goods in hand			£	374,00	
Receivable(Moon)			£	26,00	
Receivable(Harvey)			£	138,00	£ 861,00
Liabilities					
Max					
Rich					
Loan					

Capital				£ 1,049	
(+) Net Profit/loss				£ 42,00	
(-)Drawing					
New Capital					£ 1,091

Assets = Liabilities +Capital

Trail Balance as at 31 January
The Trial Balance always has the date of the last date of the accounting period to which it relates.

Description			Dr	Cr
Cash			£ 323,000	
Capital				£ 1 049,000
Harvey			£ 138,000	
Moon			£ 26,00	
Sales				£ 412,00
Purchase			£ 225,00	
Office expenses			£ 3,00	
Desk			£ 32,00	
Inventory			£ 458,00	
Assets			£ 198,00	
Wages			£ 58,00	
			£ 1 461,000	£ 1 461,000

Opening Inventory is recorded in a ledger account and so would be included in the trial balance prepared
The closing Inventory figure is not found in on account in the ledger
so it does not appear in the trial balance

Task 4

Accounting is a systematic registration, periodic presentation in financial statements and analysis of the entity's transactions in a monetary measure. It is done in compliance with certain rules, commonly called Generally Accepted Accounting Principles. Accounting allows a company to analyze its financial results from business on a basis of various indicators such as net profit (profit for the period).

The ledger account is a means of making an information record showing the availability at the beginning and the end of the period and, more importantly the changes (increases and decreases) during the period in a given subject - receivable, liability, long-term assets and inventory.

Clarie Account

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
2 June	Sales	8500			
			22 June	Sales	1000
			24 June	Cash	7125
			24 June	Sales Discount	375

Cash

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
24 June	Clarie	£ 7 125,00	25 June	Georgia	£11 160,00
25 June	Hywel	£ 8 550,00	27 June	Andrew	£4 410,00
20 June	Sales	£ 6 000,00			£15 570,00
		£ 21 675,00			

Balance c/d £ 6 105,00

Hywel

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
14 June	Sales	£8 550,00	25 June	Cash	£ 8 550,00

Andrew

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
27 June	Cash	£ 4 410,00	21 June	Purchase	£ 4 500,00
27 June	Purchase discount	£ 90,00			

Mandy

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
24 June	Sales	£ 5,000			

Sales

Dr			Cr		
Date	Description	Amount	date	Description	Amount
22 June		£ 1 000,00	2 June	Clarie	£ 8 500,00
			14 June	Hywel	£ 8 550,00
			20 June	Cash	£ 6 000,00
			24 June	Mandy	£ 5 000,00
					£ 28 050,00

Purchase

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
13 June	Cash	£ 12 000,00			
21 June	Andrew	£ 4 500,00			

Georgia

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
			13 June	Purchase	£ 12 000,00
25 June	Cash	£ 11 160,00			
25 June	Purchase discount	£ 840,00			
		£ 12 000,00			

Sales discount

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
24 June	Clarie a/c	£ 375,00			

Purchase discount

Dr			Cr		
Date	Description	Amount	Date	Description	Amount
			25 June	Georgina a/c	£ 840,00
			27 June	Andrew	£ 90,00
					£ 930,00

Every transaction is recorded twice so
that for every debit there is an equal
corresponding credit

TRANSACTION IN THE BOOK OF RICARDO

Date	Descriptio			Dr	Cr
2 June					
	Account Receivable			£ 8 500,00	
	(Clarie)				
	Sales				£ 8 500,00
	(Sold goods to Clarie on credit)				
13 June	Purchase			£ 12 000,00	
	Account Payable (Georgina)				£ 12 000,00
	(Bought goods from Georgina on credit)				
14 June	Hywel			£ 8 550,00	
	Sales				£ 8 550,00
	(Sold goods to Hywel)				
20 June	Cash			£ 6 000,00	
	Sales				£ 6 000,00
	(Sold goods to Jane for cash)				
21 June	Purchase			£ 4 500,00	
	Account Payable (Andrew)				£ 4 500,00
	(Bought goods from Andrew on credit)				
22 June	Sales returned			£ 1 000,00	
	Clarie				£ 1 000,00

24 June	Account Receivable (Mandy)		£	5 000,00	
	Sales				£ 5 000,00
	(Mandy bought goods)				
24 June	Cash		£	7 125,00	
	Sales discount		£	375,00	
	Account Receivable (Clarie)				£ 7 500,00
	(Clarie paid after discount)				
25 June	Cash		£	8 550,00	
	Account Receivable Hywel				£ 8 550,00
	(Hywel settled amount)				
25 June	Georgina		£	12 000,00	
	Cash				£ 11 160,00
	Purchase Discount				£ 840,00
	(Ricardo paid Georgina after discount)				
27 June	Andrew account		£	4 500,00	
	Cash				£ 4 410,00
	Purchase Discount				£ 90,00
	(payment made to Andrew)				
			£	78 100,00	£ 78 100,00

The Trial Balances are one form of checking the accuracy of entries in the accounts.

It is practice to prepare one at the end of the period

Trail Balance

Description	Dr	Cr
Sales		£ 27,050
Purchase	£ 16,500	
Cash	£ 6,105	
Discount Purchase		£ 0,930
Discount Sales	£ 0,375	
Mandy	£ 5,000	
Total	£ 27,980	£ 27,980

Task 5

Capital Expenditure (CAPEX) is a finance used by a company to acquire or improve fixed assets such as real estate, industrial buildings or facilities. Expenditure is considered to be capital when the asset is an entirely new purchased asset or an investment that improves the condition of an existing equity asset and increases its value.

Capital expenditure is depreciated over the life of the investment, which may period of time is known as a recovery period, and rest periods for underlying assets are set so that companies know how much to take as capital costs. Depreciation means that the company cannot deduct the cost of capital at once and instead extends it over the life of the investment.

If an expense is a capital expense, it must be capitalized, this requires the company to allocate the cost of the expense over the life of that asset. The difference between the maintenance CAPEX and the investment is that a capex that does not cause significant changes in profits is a supportive capex. So if the expense is such that it relates to maintaining the asset in its current state, the price is entirely deducted in the year of expense.

Definition of Revenue Expenditure

A revenue expenditure is a cost that will be an expense in the accounting period when the expenditure takes place. Revenue expenditure is an amount that is spend for an expense that will be matched immediately whit the revenues reported on the current period's income statement.

Revenue expenditures are often discussed in the context of fixed assets. The revenue expenditure take place after a fixed asset had been put into service and simply keeps the asset in working order. A **revenue expenditure** is a cost that is charged to **expense** as soon as the cost is incurred. By doing so, a business is using the matching principle to link the **expense** incurred to **revenues** generated in the same reporting period.

The difference between capital expenditure and revenue expenditure are :timing ,consumption and size.

Timing – Capital expenditure are charged to expense via depreciation over a long period of time. Revenue expenditure are charged to expense in the current period.

Consumption – Capital expenditure – over the life time

Revenue expenditure – very short period of time

Size - Capital expenditure – involve larger monetary amount than revenue expenditure.

Revenue expenditure – period costs.

Accounting information adequately reflects the state, the changes and the results of the production-economic activity. It helps to prevent losses, to reduce the cost of production, to improve their financial condition, to reflect deviations in the management to compare the costs with revenues, to determine the results achieved, to increase the efficiency of the activity, for the purposeful development of management decision.

The accounting information provides a rich material for the purposes of compiling the business plan, forecasting the development of the activity, compiling the calculations and determining the prices of the produced output and other processes, performing the control and analysis of the activity, taking and implementing the management solutions. It is used repeatedly at different levels of control at different time intervals and is the backbone of the management process.

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