

Cristina Marin - 2213202 - 4003 Birmingham

by Cristina Marin

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Student Name: Cristina Marin

Student Number: 2213202

Accounting Fundamentals (LCBB4001)

TASK 1

Smart Grocery

Income ¹Statement

For the period End on 31st December 2022

Details	£	£
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
Less: Expenses		
Rent: 2,200	1,970	
Less: Rent Prepaid: 230		
Salaries 28,400	28,740	
Add: Accruals 340		
Discount Allowed	740	
Depreciation: Furniture: $12900 \times 15\% = 1935$ Vehicle: $13700 - 4350 = 9350 \times 20\% = 1870$	3,805	
Vehicle Maintenance: 615	1,155	
Add: Accruals 540		
Bad Debt	316	
New provision for bad Debt $14316 - 316 = 14000 \times 5\% = 700 - 515$	185	
Total Expenses		-36,911
Net Profit		26,895

1
Smart Grocery

Balance Sheet

As at 31st of December 2022

Details	£	£
Non-current assets		
Furniture: 12,900	7,095	
Less: Accumulated dep. (1,935+3870) = (5,805)		
Vehicle 13,700	7,480	
Less: Accumulated dep. 1 (4,350+1870) = (6,220)		
Total Non – Current Assets		14,575
Current Assets		
Bank	4,820	
Trade Receivables 14,316	13,300	
Less: Specific Bad Dept (316)		
Less: Provision for bad debt. (700)		
Closing Inventory	2400	
Rent Prepaid	230	
Total Current assets		20,750
Total Assets		35,325
Liabilities and capital		
Non-current liabilities		0
Current liabilities		
Salaries Accruals	340	
Trade payables	6,350	
Vehicle Maintenance Accrual	540	
Total current liabilities		7,230
Total liabilities		7,230

Capital	15,000	
Add: Net Profit	26,985	
Less: Drawings	(13,800)	
Ending Capital		28,095
Capital + liability		35,325

TASK 2

Jack's Business

Financial Journal

No.	Date	Transaction	Debit	Credit
1	2 nd May	Advertising	500	
		Bank		500
2	3 rd May	Payables	2,500	
		Bank		2,500
3	7 th May	Drawings	700	
		Bank		700
4	9 th May	Bank	3,000	
		Receivables		3,000
5	11 th May	Petrol expense	350	
		Bank		350
6	15 th May	Bank	2,600	
		Receivables		2,600
7	18 th May	Insurance	450	
		Bank		450
8	20 th May	Purchases	1,200	
		Payables		1,200
9	21 st may	Receivables	2,400	
		Sales		2,400
10	30 th May	Purchase	1,200	
		Bank		1,200

Capital			
Dr		Cr	
Bal c/d	50,000	Bal	50,000

		1 31 st of May Bal b/d	50,000
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Delivery Van			
Dr		Cr	
Bal	13,000	Bal c/d	1 13,000
31 st May Bal b/d	13,000		

Bank			
Dr		Cr	
Bal	27,000	2 nd May – Advertising	500
9 th May – Receivables	3,000	3 rd May – Payables	2,500
15 th May – Receivables	2,600	7 th May – Drawings	700
		11 th May – Petrol Expense	350
		18 th May – Insurance	450
		30 th May – Purchases	1200
Total	32,600	Total	5,700
		Bal c/d	26,900
31 st of May Bal b/d	26,900		

Payables			
Dr		Cr	
3 rd May – Bank	2,500	Bal	5,000
		2 nd May – Purchase	1,200
Total	2,500	Total	6,200
Bal c/d	3,700		
		31 st of May Bal b/d	3,700

Drawings			
Dr		Cr	
7 th May – Bank	700	Bal c/d	700
Total	700	Total	700
31 st of May Bal b/d	700		

Insurance			
Dr		Cr	
18 th of May – Bank	450	Bal c/d	450
Total	450	Total	450
31 st of May Bal b/d	450		

Sales			
Dr		Cr	
Bal c/d	2,400	21 st of May – Receivables	2,400
Total	2,400	Total	2,400
		31 st of May Bal b/d	2,400

Receivables			
Dr		Cr	
Bal	15,000	9 th of May – Bank	3,000
21 st of May – Sales	2,400	15 th of May – Bank	2,600
Total	17,400	Total	5,600
		Bal c/d	11,800
31 st of May Bal b/d	11,800		

Advertising			
Dr		Cr	
11 th of May – Bank	500	Bal c/d	500
Total	500	Total	500
31 st of May Bal b/d	500		

Petrol Expenses			
Dr		Cr	
11 th of May – Bank	350	Bal c/d	350
Total	350	Total	350
31 st of May Bal b/d	350		

Purchases			
Dr		Cr	
20 th of May – Payables	1,200	Bal c/d	2,400
30 th of May – Bank	1,200		
Total	2,400	Total	2,400
31 st of May Bal b/d	2,400		

Jack's Business

Trial Balance 31st of May 2023

S/N	Account Name	Debit	Credit
1	Capital		50,000
2	Bank	26,900	
3	Van	13,000	
4	Payables		3,700
5	Receivables	11,800	
6	Advertising	500	
7	Fuel expenses	350	
8	Insurance	450	
9	Sales		2,400
10	Purchases	2,400	
11	Drawings	700	
12	Total	56,100	56,100

Task 3

Depreciation is a fundamental accounting concept that reflects the progressive attrition of non-current assets over time. This is a method of allocating the cost of a tangible asset over its lifetime (Bragg 2012). Companies use depreciation to take into account the reduction in the value of their long-term assets, such as buildings, machinery and equipment.

The application of impairment starts with the determination of the initial cost of the asset, its estimated ² useful life and its residual value at the end of its useful life. The difference between the original cost and the residual value is the amortizable amount, which is then divided by the useful life to calculate the annual depreciation (Bragg, 2012). This expense is recognised in the income statement, reducing the profit or loss for the year, and is also deducted from the carrying amount of the assets in the balance sheet.

Accounting impairment is critical for companies for a number of reasons. First, it ensures that the cost of an asset matches the revenue it generates, consistent with the accounting matching principle (Warren, Reeve & Duchac, 2014). This gives a clearer picture of an enterprise's profitability.

Second, it helps companies plan their future capital expenditures as assets near the end of their useful life. Finally, it reduces a business's taxable income because depreciation is a non-monetary expense deductible for tax purposes.

Depreciation also plays a major role in managing a company's cash flow. Since it ⁴ is a non-cash expense, it does not directly affect the cash flow of a company, but it does reduce the company's taxable income, which in turn reduces the cash outflow for taxes (Warren, Reeve & Duchac, 2014).

Therefore, it is important to understand and manage impairment not only to produce accurate financial reports, but also to ensure efficient cash flow management.

To conclude, depreciation is a key accounting practice that helps firms accurately represent the value of their non-current assets and their impact on profitability. It is a systematic approach that aligns with accountancy principles and supports strategic financial planning.

References:

Bragg, S. (2012). Depreciation. In Accounting Tools. ³Warren, C., Reeve, J., & Duchac, J. (2014). *Accounting* (25th ed.). South-Western Cengage Learning.

Warren, C., Reeve, J., & Duchac, J. (2014). *Accounting* (25th ed.). South-Western Cengage Learning.

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